ORIGINAL

NEW APPLICATION

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BEFORE THE ARIZONA CORPORATION COMMISSION

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COMMISSIONERS
MIKE GLEASON - CHAIRMAN
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KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-08- G-04204A-08-0571

UNS GAS, INC.

APPLICATION

TESTIMONY AND EXHIBITS

VOLUME 1 OF 3

Arizona Corporation Commission
DOCKETED
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November 7, 2008

Application

BEFORE THE ARIZONA CORPORATION COMMISSION

<u>COMMISSIONERS</u>
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
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IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	)	DOCKET NO. G-04204A-08-____ **APPLICATION**

UNS Gas, Inc. ("UNS Gas" or "Company"), pursuant to A.R.S. §§ 40-250, 40-251, and A.A.C. R14-2-103, hereby files an Application for an increase in its base rates of $9.5 million, or approximately 6% over test year revenues, and to set UNS Gas' fair value rate base at $256 million. UNS Gas requests that the new rates become effective not later than December 1, 2009.

UNS Gas' current rates and charges, which were approved by the Arizona Corporation Commission ("Commission") in Decision No. 70011 (November 27, 2007), do not produce a reasonable return on the fair value of its property devoted to public service and are therefore not just and reasonable. The rate increase sought is required to enable the Company to earn a fair rate of return on the fair value of its assets devoted to public service, and will provide for recovery of the Company's operating and capital costs necessarily and prudently incurred in rendering adequate utility service to customers. The requested increase is necessary for UNS Gas to operate as a financially healthy utility that can ensure UNS Gas customers continued reliable service, on demand, and at reasonable prices into the future.

In connection with its request for increased revenues, UNS Gas is also asking the Commission to design rates that recover a greater share of the Company's fixed costs through a higher fixed monthly customer charge. Presently, customers in colder areas, like Flagstaff, continue to subsidize customers in warmer areas. This modification will reduce this inequity, and help ensure that all customers are paying their fair share. This change serves to create rates that treat customers across the Company's diverse service territory more equitably, while balancing the interests of the Company and its customers. This rate design results in an average 6% increase to a customer's total bill compared to test year revenues, inclusive of gas costs. The effect on the fixed monthly and delivery charges on an average customer's bill will be an increase in those components of approximately 19% compared to test year revenues, <u>excluding</u> gas cost recovery.

Finally, through this Application, as set forth in more detail in the accompanying testimony, UNS Gas is requesting the Commission to approve requested changes to the Company's Rules and Regulations and a minor change to the Company's purchased gas adjustor mechanism.

In support of this Application, UNS Gas respectfully states as follows:

I.

The Company is a corporation duly organized, existing and in good standing under the laws of the State of Arizona. Its principal place of business is 2901 West Shamrell, Flagstaff, Arizona 86001.

II.

The Company is a public service corporation principally engaged in the transmission and distribution of natural gas for sale in Arizona pursuant to Certificates of Convenience and Necessity issued by the Commission.

III.

All communications and correspondence concerning this Application, as well as communications and pleadings with respect thereto filed by other parties, should be served upon the following:

Raymond S. Heyman, Esq.
Phillip J. Dion, Esq.
Michelle Livengood, Esq.
UniSource Energy Corporation
One South Church, Suite 200
Tucson, Arizona 85701

and

Michael W. Patten, Esq.
Jason D. Gellman, Esq.
Roshka, DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

IV.

This Commission has jurisdiction to conduct public hearings to determine the fair value of the property of a public service corporation, to fix a just and reasonable rate of return thereon, and thereafter, to approve rate schedules designed to develop such return. Further, the Commission has jurisdiction to establish the practices and procedures to govern the conduct of such hearing, including, but not limited to, such matters as notice, intervention, filing, service, exhibits, discovery, and other prehearing and hearing matters.

V.

Accompanying this Application are the standard filing requirements and rate design schedules described in A.A.C. R14-2-103 and the Direct Testimony and related exhibits of the following witnesses:

- David G. Hutchens
- Kentton C. Grant
- Dallas J. Dukes
- Karen G. Kissinger
- Gary A. Smith
- D. Bentley Erdwurm
- Denise A. Smith

VI.

UNS Gas respectfully requests that this Commission set a date for a hearing on this Application such that new rates for the Company will become effective on December 1, 2009. At the hearing conducted pursuant to this rate request, UNS Gas will establish, among other things, that:

(1) its current rates and charges do not permit the Company to earn a fair return on the fair value of its assets devoted to public service and are therefore no longer just and reasonable;

(2) the requested increase is the minimum amount necessary to allow the Company an opportunity to earn a fair return on the fair value of its assets devoted to public service, for preservation of the Company's financial integrity and for the attraction of new capital on reasonable terms;

(3) the Company requires additional permanent base revenue of at least $9.5 million based on annualized test period sales in order to continue to provide adequate and reliable gas service to its customers as required by law;

(4) the proposed rate design will better align the fixed and variable costs of service with the rates paid by the customers causing those costs and is in the public interest; and

(5) the proposed modifications to UNS Gas' tariffs (specifically, its Rules and Regulations) should be approved.

VII.

In addition to setting a hearing date, UNS Gas asks that the Commission issue a procedural order setting forth the prescribed notice for the Application, establishing procedures for intervention, and providing for appropriate discovery. UNS Gas further requests that the Company should be authorized to serve all discovery requests, answers and objections electronically. Hard copy service would remain available to parties upon request or where the confidential nature of the information makes the use of electronic service impractical.

WHEREFORE, UNS Gas respectfully requests that the Commission:

(1) issue a procedural order establishing a date for hearing evidence concerning the Application, prescribing the time and form of notice to UNS Gas customers and establishing procedures for intervention and discovery as described above;

(2) issue a final order granting the Company the permanent rate increase sought herein;

(3) issue a final order approving the new or modified rate and service schedules included with the Company's Application with an effective date no later than December 1, 2009;

(4) issue a final order approving the proposed rate design described in the testimony accompanying this Application;

(5) issue a final order approving UNS Gas' revised Rules and Regulations, which were submitted with this Application and related testimony; and

(6) grant the Company such additional relief as the Commission deems just and proper.

RESPECTFULLY SUBMITTED this 7th day of November 2008.

UNS Gas, Inc.

By ______________________

Raymond S. Heyman
Phillip J. Dion
Michelle Livengood
UniSource Energy Services
One South Church Avenue, Suite 200
Tucson, Arizona 85701

and

Michael W. Patten
Jason D. Gellman
ROSHKA DEWULF & PATTEN, PLC.
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Attorneys for UNS Gas, Inc.

Original and 13 copies of the foregoing filed this 7th day of November, 2008, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered this 7th day of November, 2008, to:

Chairman Mike Gleason
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Phoenix, Arizona 85007

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Arizona Corporation Commission
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By ____________________

Direct Testimony of David G. Hutchens

BEFORE THE ARIZONA CORPORATION COMMISSION

<u>**COMMISSIONERS**</u>
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
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IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-08-____

Direct Testimony of

David G. Hutchens

on Behalf of

UNS Gas, Inc.

November 7, 2008

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Exhibits

I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is David G. Hutchens. My business address is One South Church Avenue, Tucson, Arizona 85701.

Q. By whom are you employed and what is your position?

I am employed by both Tucson Electric Power Company ("TEP" or the "Company") and UNS Gas, Inc. ("UNS Gas"). I have operational responsibility for UNS Gas as its Vice President of Operations. My position at TEP is Vice President, Wholesale Energy. I oversee the fuel and wholesale power procurement, trading, marketing and risk management functions for TEP and its affiliates, UNS Gas and UNS Electric, Inc. ("UNS Electric").

Q. Please describe your education and experience.

A. I received a Bachelor of Science degree in Aerospace Engineering from the University of Arizona in 1988 and a Master of Business Administration degree from the University of Arizona's Eller Graduate School of Management in 1999.

I was commissioned into the United States Navy in 1988 and served as a Nuclear-Trained Submarine Line Officer until 1993. From 1993 to 1994, I worked as a Process Engineer for Alcatel Telecommunications Cable in Roanoke, Virginia. From 1994 to 1995, I worked as the Instrumentation and Control Team Leader for Magma Copper Company in San Manuel, Arizona.

I was hired by TEP in 1995 as an Analyst in Product Planning and Development. In 1996, I moved into TEP's Wholesale Marketing Department as an Energy Marketer/Trader. I was promoted to Supervisor of the area in 1999, Manager in 2001 and General Manager in 2003. I was promoted to my current position of Vice President of Wholesale Energy in 2007.

Q. Mr. Hutchens, what is the purpose of your Direct Testimony in this proceeding?

A. My Direct Testimony is policy-oriented. In my Direct Testimony, I support UNS Gas' request for an increase in rates by providing: (i) an overview of UNS Gas' operations; (ii) a summary of UNS Gas' rate request and the factors that have caused us to file our application at this time; (iii) the Company's recommended Fair Value Rate Base Rate of Return; (iv) an introduction into the rate design that UNS Gas is proposing in this case, including higher customer charges; (v) information on developer contributions, and (vi) identification of other UNS Gas witnesses and the topics that they will address in their respective testimony. Those witnesses will address many of these topics in greater detail.

II. OVERVIEW OF UNS GAS OPERATIONS.

Q. Please describe UNS Gas' service territories.

A. UNS Gas serves a growing base of customers in Mohave, Yavapai, Coconino, and Navajo Counties in northern Arizona, and Santa Cruz County in southeast Arizona. These counties comprise approximately 50% of the territory of the state of Arizona, with a population of approximately 799,000. A copy of a map depicting UNS Gas' certificated area is attached to my Direct Testimony as Exhibit DGH-1.

Q. Please provide a general description of UNS Gas' customers, Test Year and business operations.

A. UNS Gas is a gas distribution company and its customer base has grown to approximately 145,000 customers, 91% of which were residential customers, as of the end of the June 30, 2008 Test Year utilized by UNS Gas in this rate case filing ("Test Year"). During the Test Year, UNS Gas purchased or transported, on behalf of all of its customers, 27.62 billion cubic feet of gas.

Most of the gas distributed by UNS Gas in Arizona is procured from the San Juan Basin in the Four Corners region and delivered on the El Paso Natural Gas ("EPNG") and Transwestern Pipeline Company ("Transwestern") interstate pipeline systems. UNS Gas has firm transportation agreements with EPNG and Transwestern with combined capacity sufficient to meet its customers' demands.

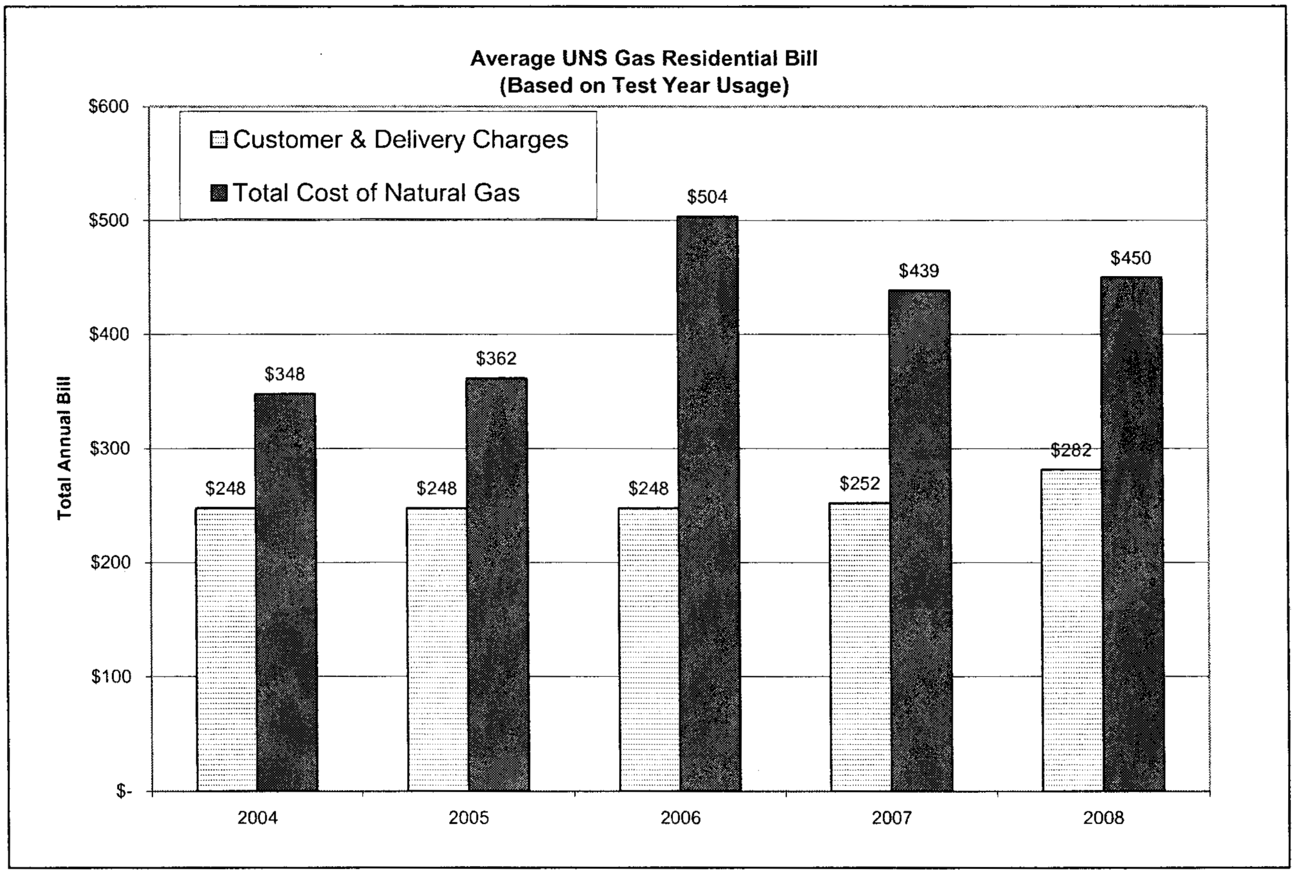
III. <u>SUMMARY OF UNS GAS' RATE REQUEST.</u>

Q. Mr. Hutchens, what is UNS Gas requesting that the Commission do in this rate case?

A. In order to provide necessary rate relief, we are asking the Commission to authorize UNS Gas to increase its rates by $9.5 million. This would result in an average 6% increase to a customer's total bill compared to Test Year revenues, inclusive of gas costs. The effect on the fixed monthly and delivery charges on an average customer's bill will be an increase in those components of approximately 19% compared to Test Year revenues, <u>excluding</u> gas cost recovery. This is explained in greater detail in Mr. Dallas Dukes' Direct Testimony and Schedule A. We also request that the Commission adopt our proposed rate design.

Q. Do you have information showing a history of UNS Gas' bills since its acquisition from Citizens?

A. Yes. The graph below shows the two components of customer bills over time – customer and delivery charges (base rates), and the total cost of natural gas. These costs are based on the same monthly usage as the adjusted Test Year residential usage in this filing. It is important to remember that the total cost of natural gas is strictly a pass-through to customers of actual costs incurred for acquiring the commodity and associated transportation. The Company has no control over the market cost of natural gas and does not make any profit on this portion of customers' bills; the market cost of natural gas currently accounts for nearly two-thirds of customers' bills. The only rate increase the Company has received related to its customer and delivery charges since it was acquired from Citizens was in the last rate case which went into effect in December, 2007 and accounts for increasing an average customer's bill by 5.7% compared to 2004. Over the same time period, the total costs of natural gas have increased 29% and accounts for increasing an average customer's bill by 17% compared to 2004.



Q. Please explain why UNS Gas is filing a request for an increase in rates at this time.

A. Even though UNS Gas recently received a rate increase, those rates are inadequate for the Company to recover its costs and earn a reasonable rate of return on its investment. Additionally, UNS Gas has also continued to experience growth in UNS Gas' service territory, the related increase in capital expenditures and operating costs, as well as increases related to rising material and labor costs.

Since the end of the 2005 Test Year used in UNS Gas' recently completed rate case, UNS Gas has added over 5,000 customers. As of the end of the June 30, 2008 Test Year, UNS Gas had a customer base of 145,000. We project that the number of UNS Gas customers will increase by, on average, 2.5% annually. In order to meet its growth, UNS Gas has incurred, and will continue to incur, capital expenditures for items such as pipelines, meters and regulators. These items cost significantly more than they did even in 2005.

Also, from the end of the Company's last completed rate case, through the end of the Test Year, UNS Gas has put $54 million in capital expenditures into service to continue providing safe, reliable service to its customers. Operating expenses (excluding gas costs and income taxes) recovered through UNS Gas' current rates are $34.8 million, while operating expenses (excluding gas costs and income taxes) in this current rate filing are $37.7 million. UNS Gas' Test Year original cost rate base ("OCRB") is $182 million.

In summary, the main factors driving this rate case filing are: (i) current rates do not reflect substantial capital investment put into service since the end of the 2005; (ii) UNS Gas has continued to increase its investment in the gas properties attributable to upgrades to provide reliable service to existing customers and increased customer growth; and (iii) the Company's expense levels continue to increase due to rising material costs beyond its control.

IV. PROPOSED RATE OF RETURN ON FAIR VALUE RATE BASE.

Q. What is the Company proposing for its overall fair value rate of return?

A. UNS Gas is proposing a fair value rate of return ("FVROR") of 6.8% be applied to its fair value rate base ("FVRB") of approximately $256 million. The FVROR of 6.8% is significantly less than the FVROR (7.3%) that would result under the Commission's new FVROR mechanism set forth in the Chaparral City Water remand docket (Decision No. 70441 (July 28, 2008)). This FVROR will provide the Company with a realistic opportunity to earn its allowed return on equity ("ROE"). UNS Gas also believes that will allow it to support its creditworthiness and to attract capital on reasonable terms. Finally, due to the specific facts and circumstances of this filing in its entirety, the Company is proposing to forego the full FVROR in order to mitigate rate impact, in these challenging economic times. Mr. Kentton Grant addresses this proposal in more detail in his Direct Testimony.

V. CAPITAL SPENDING.

Q. Please describe the capital investment made by UNS Gas since the last rate case.

A. As I previously mentioned, UNS Gas has put an additional $54 million of capital investment into service on its distribution and service line facilities since the end of its last rate case Test Year. Roughly two-thirds of this significant investment has been related to growth in the Company's natural gas system in a number of service area communities in Arizona. The remaining one-third is attributable to UNS Gas' need to upgrade and reinforce its system for existing customers.

Q. Please describe the capital investment for the upgrade and reinforcement of the system.

A. It has been necessary for UNS Gas to acquire lateral pipelines from EPNG that supply the natural gas services to some of our distribution systems. These acquisitions gave the Company better control of system pressure and flow, allowing UNS Gas to provide safe, reliable, and continual service to its customers in a more cost effective manner than the alternatives. The expansion of UNS Gas' customer base also has required the Company to reinforce its distribution systems back at the receipt point to maintain reliable pressures and flow rates.

Q. Please describe how the capital investments have been utilized.

A. At the end of the Test Year, the Company had a total of approximately 2,893 miles of distribution mains and approximately 1,469 miles of services lines. During the Test Year, the distribution system was expanded to include approximately 75 miles of gas distribution mains and 18 miles of service lines. These capital investments were necessary to ensure UNS Gas' provision of safe, reliable and affordable service for its customers.

VI. DISTRIBUTION REVENUE STABILITY THROUGH A HIGHER MONTHLY CUSTOMER CHARGE.

Q. Mr. Hutchens, please describe UNS Gas' proposal for a higher monthly customer charge.

A. Mr. Bentley Erdwurm will address the specifics of our proposal. However, I will provide an overview of the Company's recommendation and request.

Currently, most of a gas utility's transmission, distribution and commodity costs are recovered on a volumetric basis. By that, I mean that the cost of acquiring natural gas and delivering it to customers is recovered primarily through rates that were calculated on a basis of Test Year therm usage. If customer usage is similar to Test Year usage, costs are recovered as anticipated. However, higher than expected usage can increase margin revenues beyond anticipated levels, while lower usage can result in an under-recovery of the utility's costs.

In this case, UNS Gas requests the Commission to design rates that recover a greater share of the Company's fixed costs through slightly higher fixed customer charges. Under current rates, only 36% of residential revenue is collected through customer charges, although Mr. Erdwurm's class cost of service study indicates that customer charges should account for at least 65% of residential revenue.

Q. What are the advantages of this rate design that UNS Gas is proposing?

A. This approach is more economically sound than the current rate design, because it aligns rates more closely to the true costs of service. The cost of providing transmission and distribution service to individual UNS Gas customers varies little with usage. Yet, under the current rate structure, UNS Gas recovers the bulk of those fixed costs through volumetric charges. This forces higher usage customers – typically those living in colder areas of UNS Gas' service territory – to subsidize lower-usage customers. Although the Commission nominally increased the Company's monthly charge in our last rate case, significant subsidies still exist and the Company seeks to reduce those subsidies further. In this case, UNS Gas proposes to increase its monthly customer charges to help decrease those subsidies.

The rate design we have proposed relies on a higher average monthly charge to recover a larger share of the Company's fixed transmission and distribution costs, which are incurred regardless of whether the customer uses any gas. For example, owners of summer homes would have to pay the true cost of having gas hooked-up and available, even if they do not use any gas during the high-usage winter months. Similarly, this proposal would ease the burden on customers in cold-weather climates who currently subsidize the fixed costs of customers in more temperate areas of UNS Gas' geographically diverse service territory. The more equitable rates that result from this change will help mitigate the subsidies inherent in current rates while sending much clearer price signals about the true costs of service.

Q. How will UNS Gas implement the rate design it is proposing?

A. Again, Mr. Erdwurm will provide greater detail on this rate design in his Direct Testimony, but the Company proposes an approach whereby monthly residential customer charge increases will be phased-in. During Phase 1 of the implementation, residential customer charges will increase from the current $8.50 per month to $10.00, when new rates become effective. One year after new rates become effective, Phase 2 will increase the residential customer charge to $12.00 per month. One year after Phase 2 implementation, Phase 3 will increase the residential customer charge to $14.00 per month. Even at $14.00 per month, the monthly residential customer charge will be well-below the cost-based customer charge supported by the class cost of service study ($18.15) described in Mr. Erdwurm's Testimony. With the Phase 3 residential customer charge of $14.00, only 50% of residential revenue will be collected through customer charges, as opposed to the 65% that would be collected with the cost-based $18.15 residential customer charge. The Company also proposes increases in the monthly customer charges for non-residential customers.

VII. REVISIONS TO PURCHASED GAS ADJUSTOR ("PGA").

Q. Is the Company proposing any changes to its PGA mechanism?

A. The only modification the Company is proposing is to the carrying cost rate for the PGA bank balance. We are proposing the rate be set at the actual carrying cost incurred by the Company – 3-month LIBOR plus 1%.

VIII. REVISIONS TO RULES AND REGULATIONS AND DEVELOPER CONTRIBUTIONS.

Q. Please describe the proposed changes to the Company's Rules and Regulations in this rate case filing.

A. UNS Gas is proposing some modifications to the Rules and Regulations in this docket, particularly with respect to service charges. Mr. Gary Smith sets forth those changes in detail in his Direct Testimony.

Q. Are you proposing any changes to the Company's customer contribution policies in this docket?

A. Yes, we are. UNS Gas is proposing a cost increase of $6.50 per foot (from $16.00 to $22.50, if the trench is provided by UNS Gas), or a cost increase of $4.50 per foot (from $12.00 to $16.50, if the trench is provided by the customer) to each new service line. The free footage allowance was eliminated in the Company's last rate case. We also have considered other alternatives for developer contributions as requested by the Commission in Decision No. 70011 (November 27, 2007). We believe that the prior elimination of free footage allowance and the increase of the per foot charge for line extensions proposed here help ensure that growth pays for growth. We are not, however, proposing any additional hook-up fees in this rate case filing. Mr. Smith discusses the Company's proposals for increased contributions in greater detail in his Direct Testimony.

IX. DEMAND-SIDE MANAGEMENT AND LOW-INCOME PROGRAMS.

Q. Mr. Hutchens, has UNS Gas reevaluated its Demand-Side Management programs?

A. Yes. Ms. Denise Smith's Direct Testimony provides an overview of each UNS Gas Demand-Side Management ("DSM") program, including a status update on each program, and potential new DSM program additions that UNS Gas is reviewing for possible future implementation.

Q. Mr. Hutchens, is UNS Gas proposing to maintain its Customer Assistance Residential Energy Support ("CARES") program?

A. Yes, the Company is proposing to maintain the same basic monthly charge for CARES customers at $7, and the same non-commodity volumetric charge at $0.1770 per therm for the first 100 therms per month in the billing months of November to April. For all therms sold in excess of the initial 100 therms per month, the price is $0.3270 per therm. These charges cover non-commodity costs. The CARES customer charge has not increased since our acquisition of the Citizens system.

Q. Is UNS Gas proposing to expand its low-income assistance programs?

A. Yes. The Company is proposing to hold meetings of interested stakeholders to discuss modifications to the CARES program that could limit increases in gas commodity costs borne by these customers. If consensus can be reached, the Company will file testimony in support of the changes. The Company proposes that the CARES stakeholder group discuss expanding assistance beyond the 150% of poverty threshold applicable to CARES. Mr. Erdwurm provides greater detail on these topics in his testimony.

X. WITNESSES.

Q. Mr. Hutchens, in addition to you, who are the witnesses that are filing Direct Testimony for UNS Gas in this case?

A. UNS Gas is presenting the direct testimony of officers, managers and employees who have direct responsibility for the subject matter about which they will testify. The following individuals are presenting testimony in this proceeding:

Mr. Kentton C. Grant. Mr. Grant is the Vice President of Finance and Rates for UniSource Energy, TEP and its affiliates, including UNS Gas. Mr. Grant will testify about UNS Gas': (1) financial condition; (2) capital structure; (3) cost of equity; (4) cost of debt; (5) weighted average cost of capital; (6) ROR on fair value rate base; and (7) the financial impact of the Company's rate request. Mr. Grant also will address the modification of carrying cost rate for the PGA bank balance. Mr. Grant will sponsor the following schedules:

A-3	Summary of Capital Structure
A-4	Construction Expenditures and Gross Plant in Service
D-1 though D-4	Cost of Capital
F-1 though F-4	Financial Projections

Mr. Dallas J. Dukes. Mr. Dukes is the Manager of Rates and Revenue Requirements for TEP and its affiliates, including UNS Gas. He will testify concerning the UNS Gas income statement and adjustments to the income statement, as well as rate base and adjustments to rate base for regulatory purposes. He will also sponsor the following schedules:

A-1	Computation of Increase in Gross Revenue Requirements
A-2	Summary Results of Operations

A-5	Summary Changes in Financial Position
B-1 through B-5	Rate Base and Adjustments
C-1 through C-2	Income Statement and Adjustments
C-3	Gross Conversion Factor

Ms. Karen G. Kissinger. Ms. Kissinger is the Vice President, Controller and Chief Compliance Officer for UniSource Energy. She is also the Vice President and Controller of UNS Gas. She will testify concerning the Company's financial statements, income taxes, property taxes and ADIT within rate base. She will sponsor the following schedules:

E-1 through E-9	Financial Statements and Statistical Data

Mr. Gary Smith. Mr. Smith is a Vice President and General Manager of UNS Gas. Mr. Smith will discuss the following: (1) UNS Gas' low-income assistance programs; (2) revisions to the Company's Rules and Regulations and developer contributions; and (3) American Gas Association benefits. Mr. Smith will sponsor the following exhibits:

GAS-1(a)	Clean version of UNS Gas' Rules and Regulations;
GAS-1(b)	Redlined version of UNS Gas' Rules and Regulations;
GAS-2	Comments of Tucson Electric Power Company, UNS Electric, Inc. and UNS Gas, Inc. dated November 2, 2007, Docket Nos. E-00000K-07-0052 and G-00000K-07-0052;
GAS-3	Redlined version of Pricing Plan T-1 Transportation of Customer-Secured Natural Gas; and
GAS-4	Redlined version of Pricing Plan T-2 Transportation Service Using Dedicated Transmission Facilities.

Mr. D. Bentley Erdwurm. Mr. Erdwurm is the Lead Analyst in the Pricing and Economic Forecasting department for TEP and its affiliates, including UNS Gas. Mr. Erdwurm will testify about: (1) weather normalization; (2) the customer annualization adjustment; (3) the class cost of service study; (4) rate design and (5) the expansion of low-income assistance programs. Mr. Erdwurm will sponsor the following schedules and exhibits:

G-1 through G-7	Cost of Service
H-1 through H-5	Effect of Proposed Rate Schedules
DBE-1	Subsidy of Warmer Districts by Cooler Districts
DBE-2(a)	Clean version of Tariffs
DBE-2(b)	Redlined version of Tariffs

Ms. Denise Smith. Ms. Smith is the Director of Conservation and Renewable Programs at TEP, UNS Gas and UNS Electric. Ms. Smith will testify about UNS Gas' Demand-Side Management Programs.

XI. SUMMARY.

Q. Mr. Hutchens, please summarize the requests UNS Gas is making in this case:

A. We are requesting the following:

(1) An increase in base rates of \$9.5 million, or approximately 6% over Test Year revenues, which will allow UNS Gas to recover its expenses and earn a reasonable return on its investment;

(2) Approval of the Company's requested rate design, which will result in an average 6% increase to a customer's total bill compared to Test Year revenues, inclusive of gas costs. The effect on the fixed monthly and delivery charges on an average

customer's bill will be an increase in those components of approximately 19% compared to Test Year revenues, excluding gas cost recovery; and

(3) Approval of requested changes to the Company's Rules and Regulations.

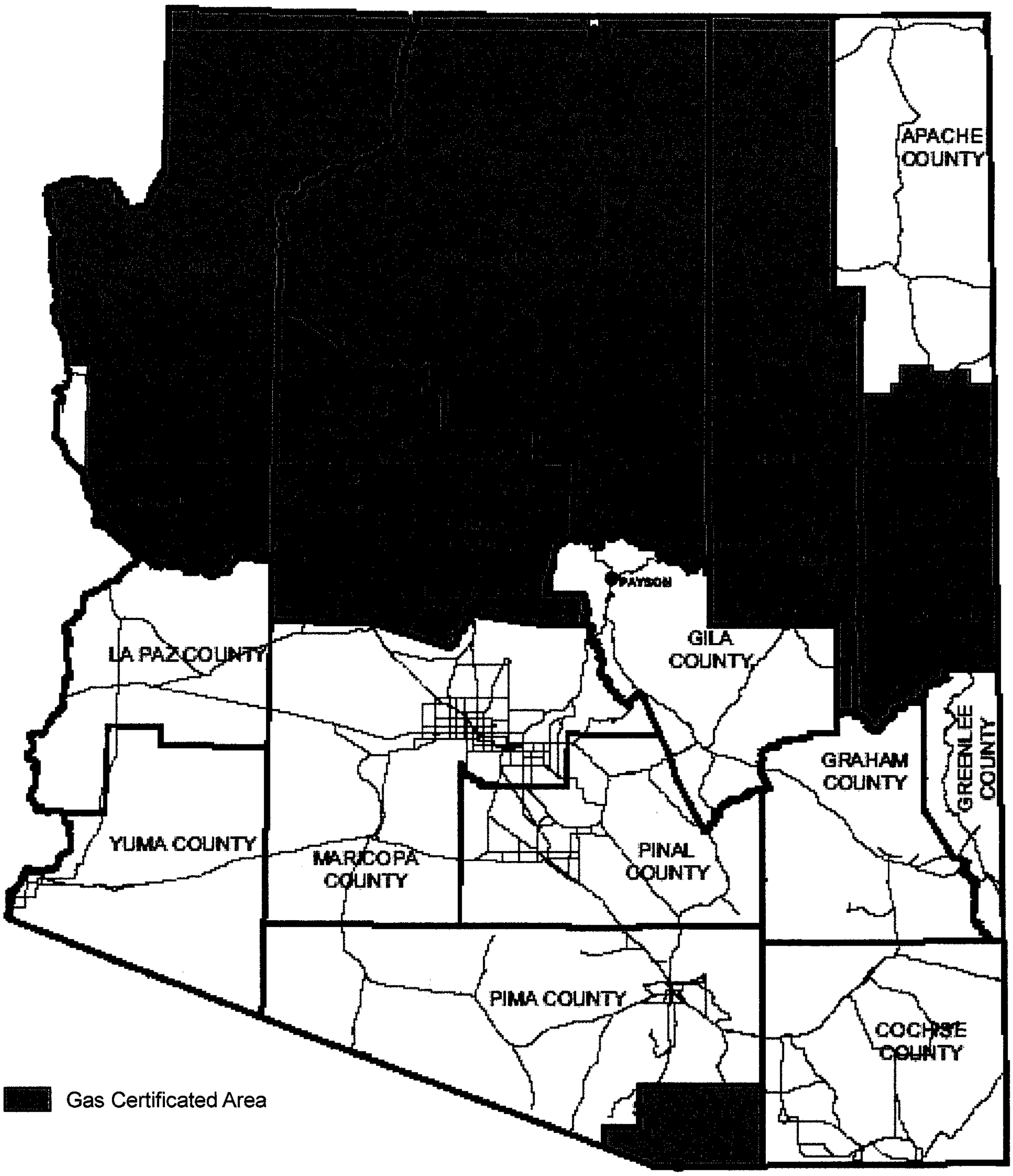
Q. Mr. Hutchens, does this conclude your Direct Testimony?

A. Yes, it does.

EXHIBIT

DGH-1

UniSource Energy Services
Gas Certificated Area



UniSourceEnergy
SERVICES

Direct Testimony of Kentton C.Grant

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-08-____

Direct Testimony of

Kentton C. Grant

on Behalf of

UNS Gas, Inc.

November 7, 2008

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I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is Kentton C. Grant. My business address is One South Church Avenue, Tucson, Arizona, 85701.

Q. What is your employment position?

A. I am Vice President of Finance and Rates for UniSource Energy Corporation ("UniSource Energy") and Tucson Electric Power Company ("TEP"). In this role I am responsible for providing financial and regulatory support services to UniSource Energy and its regulated utility subsidiaries. These subsidiaries include UNS Gas, Inc. ("UNS Gas" or the "Company"), UNS Electric, Inc. ("UNS Electric") and TEP.

Q. Please summarize your professional experience and education.

A. I received a Master of Business Administration degree with a concentration in finance from the University of Texas at Austin, as well as a Bachelor of Science degree in Civil Engineering from Purdue University. I am a member of the Chartered Financial Analyst ("CFA") Institute, and in 1995, I was awarded the professional designation of CFA. I am also a member of the Society of Utility and Regulatory Financial Analysts, and in 1992, I was awarded the designation of Certified Rate of Return Analyst ("CRRA").

From 1984 to 1995, I was employed by the Public Utility Commission of Texas. During this period I served in various staff positions, including Director of the Financial Review Division. In that role I directed a staff responsible for performing financial analyses, accounting reviews and management audits of electric and telecommunications utilities. As a staff member I provided expert testimony on a variety of financial topics including the cost of capital, financial integrity, rate moderation and the valuation of utility properties.

I joined TEP in 1995 as a senior financial analyst. In 1997, I was promoted to Director of Capital Resources and elected Assistant Treasurer. I was subsequently promoted to Manager of Financial Planning and in 2003, became a General Manager in TEP's Shared Services Unit. In January 2007, I was elected Vice President of Finance and Rates for both TEP and UniSource Energy. In these roles I have gained extensive experience in financial forecasting, financial analysis, the structuring of new financings and other related activities.

Q. What is the purpose of your Direct Testimony?

A. In my Direct Testimony I support UNS Gas' request for a rate increase by: (i) providing an overview of the Company's financial condition; (ii) recommending a fair rate of return on common equity capital; (iii) determining the weighted average cost of capital ("WACC") for UNS Gas; and (iv) recommending a fair rate of return ("ROR") on fair value rate base ("FVRB"). I also discuss the appropriate carrying cost to be applied to balances under the Company's purchased gas adjustor ("PGA") rate mechanism, and sponsor several schedules including Schedule A-3 (Summary Capital Structure), Schedule A-4 (Construction Expenditures and Gross Plant in Service), the "D" Schedules (Cost of Capital Information) and the "F" Schedules (Projections and Forecasts) that were filed in support of UNS Gas' rate request.

Q. Please summarize your recommendations concerning the cost of capital to UNS Gas and the appropriate ROR to be applied to FVRB.

A. With regard to the Company's cost of capital, I estimate the weighted average cost to be 8.75%. This WACC is based on a 6.49% cost of debt, an 11.0% cost of common equity capital, and a capital structure consisting of 50.01% long-term debt and 49.99% common equity.

With regard to the ROR to be applied to FVRB, I recommend a ROR of 6.80%, even though a higher value could be justified based on the methodology recently adopted by the Arizona Corporation Commission ("Commission") in the Chaparral City Water remand docket, (Decision No. 70441 (July 28, 2008)). This ROR, when applied to the Company's FVRB of approximately $256 million, should enable UNS Gas to attract capital on reasonable terms and provide the Company with an opportunity to earn a fair return on equity ("ROE") close to the 11.0% cost of equity identified above.

Q. What carrying cost do you recommend be applied to the Company's future PGA balances?

A. I recommend the use of a rate that reflects the actual cost to UNS Gas of financing PGA cost deferrals. The current rate used to accrue carrying costs on the PGA balance is the three-month financial commercial paper rate published by the U.S. Federal Reserve. This rate is significantly lower than the actual cost of short-term borrowing by UNS Gas, which is equal to the London Interbank Offered Rate ("LIBOR") on dollar deposits plus a credit margin of one percent. Consequently, I recommend use of the three-month LIBOR rate plus one percent for purposes of accruing carrying costs on the PGA balance.

II. <u>FINANCIAL CONDITION OF UNS GAS.</u>

Q. Please describe UNS Gas' current financial condition.

A. UNS Gas has a mixed financial profile. On the positive side, the Company has a healthy mix of debt and equity capital and a relatively low cost of long-term debt. The Company's earnings and cash flow have also improved due to the base rate increase approved in 2007 by the Commission. However, even with this rate increase, it is unlikely the Company will be able to earn the 10.0% ROE authorized by the Commission in that rate proceeding (Decision No. 70011). This is due largely to the wide gap between the embedded cost of utility plant reflected in the Company's current rates and the higher cost of utility plant added since December 31, 2005, the test year in UNS Gas' last rate case. Internal cash flow at UNS Gas is also quite weak relative to the Company's annual capital spending requirements for new plant and equipment. Continued weakness in the Company's earnings and cash flow, coupled with the lack of any dividend on shareholder capital, places UNS Gas at a competitive disadvantage in terms of attracting the capital needed for utility plant investment.

Q. What steps has the Company taken to improve its financial condition over time?

A. Since the acquisition of gas distribution properties from Citizens Communications Company ("Citizens") in 2003, UNS Gas' balance of common equity capital has nearly doubled from \$50 million to \$99 million as of June 30, 2008. This has been achieved through the retention of 100% of annual earnings at UNS Gas and an additional equity infusion of \$16 million made by UniSource Energy. As a result, the Company's ratio of common equity to total capital has improved from 33% in August of 2003 to approximately 50% as of the test year ending June 30, 2008. Over time UNS Gas has also taken steps to reduce its operating costs wherever feasible and to realize additional economies of scale through the sharing of administrative support services with TEP and UNS Electric. The Company's revolving credit facility, which is shared with UNS Electric, was also refinanced in 2006 with a resulting decrease to the interest rate applicable to borrowings under that facility.

Q. How does UNS Gas' financial condition compare with other gas distribution utilities?

A. In terms of capital structure, the Company's 50% equity ratio at the end of the test year was in line with the industry average of 50.4% reported by Value Line for 2007. However, in terms of earnings and cash flow, UNS Gas is lagging most firms in the industry by a wide margin. The following table highlights some of the key financial results recorded by UNS Gas in 2007, as well as forecasted results for calendar years 2008 and 2009 assuming that new rates are not implemented until December 2009:

($000s)	2007 Actual	2008 Forecast	2009 Forecast
Net Income	$3,994	$8,425	$7,639
Return on Average Equity	4.6%	8.9%	7.3%
Net Operating Cash Flow	$28,368	$5,891	$21,804
Adjusted Operating Cash Flow (1)	$19,448	$16,303	$16,773
Capital Expenditures (CAPEX)	$22,589	$22,636	$23,247
% CAPEX Funded Internally (2)	86%	72%	72%

Notes:
(1) Adjusted Operating Cash Flow = Net Operating Cash Flow – Change in PGA Balance – Charges Paid to Affiliates (recorded as financing cash flow in 2007).
(2) % CAPEX Funded Internally = Adjusted Operating Cash Flow / Capital Expenditures.

The Company's earned ROE, ranging from a low of 4.6% in 2007 to a high of 8.9% projected for 2008, is quite low when compared with industry average returns. On a composite basis, the average ROE reported by Value Line for the natural gas distribution industry ranged from 11.5% to 12.2% over the period 2005-2007. Even though the Company will have realized a full year of rate relief in 2008, and has already benefited from unusually cold weather in the first half of 2008, UNS Gas still expects to earn a return on equity capital that is significantly lower than its peers in the industry and lower than the 10.0% ROE authorized in its most recent rate case.

In terms of cash flow, when the effects of temporary over- and under-collections of PGA gas costs are removed, it is apparent from the table above that UNS Gas is unable to cover all of its capital expenditures with internal cash flow. While this situation is not unusual for a utility experiencing growth in its service area, the magnitude of the cash shortfall is unusual. As an industry, gas distribution utilities typically fund approximately 80% of their capital expenditures with internal cash flow *after dividends are paid to shareholders*. Although UNS Gas' internal cash flow is expected to fund approximately 70% of capital expenditures over 2008 and 2009, this level of funding assumes that *no dividends are paid* on shareholder capital. If UNS Gas were to pay dividends at a level commensurate with the industry average, which equates to approximately 60% of annual earnings, the internal funding of capital expenditures would drop to approximately 50%, a level far below industry norms that is indicative of weak internal cash flow and a continuing dependence on outside capital.

Q. Are the debt obligations of UNS Gas rated by any of the major credit rating agencies?

A. Yes, they are. At the request of the Company, Moody's Investors Service ("Moody's") initiated ratings on UNS Gas in October 2008. A copy of the initial ratings report is attached to my Direct Testimony as Exhibit KCG-1. As discussed in that report, the senior unsecured debt obligations of UNS Gas are rated Baa3.

Q. What is the significance of a Baa3 credit rating?

A. Baa3 is the lowest investment-grade credit rating assigned by Moody's, just one notch above the speculative-grade rating of Ba1. Since the cost and availability of credit are much improved for companies with investment-grade ratings relative to companies having speculative-grade ratings, the achievement of an investment-grade rating for UNS Gas was a very important milestone. The level of credit risk as defined by Moody's for each rating category (B and higher) is summarized in the following table:

Rating	Definition
Aaa	Obligations are judged to be of the highest quality, with minimal credit risk.
Aa	Obligations are judged to be of high quality and subject to very low credit risk.
A	Obligations are considered upper-medium grade and are subject to low credit risk.
Baa	Obligations are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.
Ba	Obligations are judged to have speculative elements and are subject to substantial credit risk.
B	Obligations are considered speculative and are subject to high credit risk.

It should also be noted that with the exception of the Aaa rating, Moody's appends a numerical modifier of 1, 2 or 3 to each of these rating categories. The modifier "1"indicates that the obligation ranks in the higher end of its generic rating category; the modifier "2" indicates a mid-range ranking; and the modifier "3" indicates a ranking in the lower end of that generic rating category. Hence, the Baa3 rating assigned to UNS Gas is considered to be the lowest investment-grade rating assigned by Moody's.

Q. Why is the achievement and maintenance of an investment-grade credit rating important to the Company and its customers?

A. An investment-grade credit rating is important for two reasons. First, it helps to ensure that capital can be raised on reasonable terms even during periods of stress in the financial markets. During periods of financial stress, when investor risk aversion is at its highest, many companies with speculative-grade credit ratings will either be shut out of the credit markets or will be forced to pay extremely high rates of interest on new borrowings. Even in good times, investment-grade borrowers still enjoy a significant discount on their borrowing costs relative to speculative-grade borrowers. For utilities, this cost differential is ultimately saved in the rates paid by customers. Secondly, an investment-grade credit rating is also important in obtaining trade credit from gas suppliers and other vendors that UNS Gas does business with. The maintenance of adequate trade credit is essential to the Company's natural gas procurement program and the purchasing of other goods and services needed to provide retail gas service. Without such credit, it would be difficult, if not impossible, for the Company to lock-in purchases of natural gas in the forward markets as it does today. Over time such forward purchases help to stabilize the cost of gas supplied to and paid for by customers of UNS Gas.

III. CAPITAL STRUCTURE.

Q. Please describe the capital structure for UNS Gas as of the end of the test-year.

A. The capital structure for UNS Gas as of June 30, 2008 consisted of $100 million principal amount of long-term debt and approximately $99 million of common equity. After adjusting for unamortized issuance expenses, the long-term debt balance as of June 30, 2008 was $99.3 million. As reflected in the following table, long-term debt and common equity each comprised approximately 50% of total capital:

($ Thousands)	6/30/08	% of Total
Long-Term Debt	$99,265	50.01%
Common Equity	99,242	49.99%
Total Capital	$198,507	100.00%

Q. Do you recommend using the actual test-year capital structure for rate setting purposes?

A. Yes, I do. A capital structure consisting of a 50/50 mix of debt and equity capital is in line with the industry average and is consistent with the capital structure adopted by the Commission in the Company's most recent rate case. Additionally, this level of equity will also support UNS Gas' efforts to maintain its investment-grade credit rating.

Q. What capital structure was adopted by the Commission in the Company's last rate case?

A. In Decision No. 70011 (November 27, 2007), the Commission approved rates for UNS Gas that incorporated a capital structure consisting of 50.0% common equity and 50.0% long-term debt.

IV. <u>COST OF COMMON EQUITY CAPITAL.</u>

Q. Please describe the approach used in estimating the cost of equity for UNS Gas.

A. The first step was to estimate the cost of equity for a group of publicly-traded companies engaged in the gas distribution business. This estimate, expressed as a range of values, was developed using the discounted cash flow approach ("DCF"), the capital asset pricing model ("CAPM"), and a bond yield plus risk premium approach based on the historical relationship between public utility bond yields and allowed returns on equity for gas utilities. We then examined the risk profile of UNS Gas relative to the comparable company group in order to determine an appropriate point estimate for the Company's cost of equity.

Q. Given the extreme volatility recently experienced in the capital markets and short-term money markets, is it possible to provide a reliable estimate for the cost of equity capital?

A. Yes, it is. However, great care must be exercised in selecting appropriate time periods for analysis and appropriate benchmark data. Additional time must also be devoted to the interpretation and weighting of the results obtained from each model. It should be recognized that the cost of equity capital will change over time as markets react to changes in the global and domestic economies, changes in investor risk aversion and other factors affecting the specific industry or company being examined.

Q. What time period did you select for your analysis?

A. We focused our attention on capital markets data from the month of August 2008. Information from this time period was emphasized because (i) it was relatively recent, (ii) it followed an earlier run-up and subsequent decline in commodity prices and inflation expectations and (iii) it preceded the financial market turmoil and substantial flight-to-quality that occurred in September 2008. We also examined longer-term trends and changes in financial benchmark data over longer time periods in order to make an informed judgment regarding the cost of equity capital. However, in light of the unprecedented level of volatility experienced in the capital markets over the past eighteen months, we decided to draw most of our capital markets data from August 2008, a period of relative stability in the financial markets.

A. Comparable Company Group.

Q. Why did you analyze a group of comparable companies in order to estimate the cost of equity capital for UNS Gas?

A. Reliance on a comparable company analysis is important because UNS Gas does not have publicly traded equity securities. Additionally, the assets of UniSource Energy, the ultimate parent company of UNS Gas, are heavily weighted toward the electric utility industry. Although the risk profiles of electric distribution and gas distribution utilities are similar, TEP, the largest subsidiary of UniSource Energy, has a significant investment in electric generating facilities. As a consequence, the cost of equity capital for

UniSource Energy may not be representative of the cost of equity capital for UNS Gas. And because we are ascertaining the cost of equity capital for UNS Gas – not UniSource Energy – using a comparable company group composed of companies with significant distribution gas operations is appropriate.

Q. What criteria did you employ in selecting companies for the comparable company analysis?

A. As a starting point we evaluated each of the companies included in the natural gas distribution industry by Value Line Investment Survey ("Value Line"). From this group of eleven companies we selected ten companies that met the following screening criteria:

(i) More than 55% of operating revenues derived from gas operations (median value for group was 90%),

(ii) More than 50% of total gas throughput derived from distribution operations (median value for group was 100%),

(iii) No significant ownership of electric generating capacity,

(iv) No pending mergers or acquisitions of any significance, and

(v) Common stock currently paying a dividend, which is the normal practice for gas distribution utilities (median dividend payout for group was 63% of earnings).

Exhibit KCG-2 provides summary information on each of the companies that were selected based on these criteria. Although each of these companies may have unique circumstances that would differentiate them from UNS Gas, as a group, these companies have operating and financial characteristics as similar as possible to those of UNS Gas. The extent of this similarity is discussed further in Section IV.F below.

B. Application of Discounted Cash Flow Model ("DCF") Model.

Q. Please explain the DCF methodology.

A. The DCF methodology is derived from the Gordon dividend growth model. In its original form, the Gordon growth model may be used as a tool for determining the value of a share of common stock. The theory holds that the price of a share is equal to the present value of all future dividends. It is expressed mathematically as follows:

$$P_0 = \frac{D_1}{(1+k_1)^1} + \frac{D_2}{(1+k_2)^2} + \ldots + \frac{D_n}{(1+k_n)^n}$$

Where: P_0 = Current share price
D_n = Expected dividend in each year
k_n = Investors required rate of return in each year
n = One to infinity

If the dividends are assumed to grow at a constant rate "g" into the future, the required rate of return "k" is assumed to be constant from year to year, and "k" is greater than "g", then the equation above reduces to the following form as "n" approaches infinity:

$$P_0 = \frac{D_1}{(k-g)}$$

For purposes of estimating the cost of common equity capital, the equation above may be rearranged to solve for the investor's required rate of return:

$$k = \frac{D_1}{P_0} + g$$

Essentially, the constant growth DCF model recognizes that the return to the stockholder consists of two parts: dividend yield and growth. Equity investors expect to receive a portion of their total required return in the form of current dividends and the remainder through price appreciation. Unfortunately, the constant growth DCF model cannot be applied to companies having expected near-term growth rates that are significantly higher or lower than their long-term growth potential. In these situations, it is usually necessary to apply a multi-stage DCF model which incorporates the various growth rates expected over time.

Q. Please describe the multi-stage DCF model.

A. If the Gordon dividend growth model is modified to reflect the expected future price of the stock in terminal year "n", and assuming that the investor's required rate of return "k" is constant, the current value of a stock may be derived from the following equation:

$$P_0 = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \ldots + \frac{D_n}{(1+k)^n} + \frac{P_n}{(1+k)^n}$$

Where: P_0 = Current share price
D_n = Expected dividend in each year
P_n = Expected share price in year "n"
n = Year of expected share price

If the expected growth rate "g" is constant beyond year "n", the expected value of "P_n" can be obtained from the constant growth DCF model:

$$Pn = \frac{Dn\,(1+g)}{(k-g)}$$

Substituting this equation for "P_n" in the modified Gordon growth model, the following multi-stage DCF equation is obtained:

$$P_0 = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \ldots + \frac{D_n}{(1+k)^n} + \frac{D_n(1+g)}{(k-g)\,(1+k)^n}$$

Using this equation, the current share price, and the expected values for D_1 through D_n and "g", the required rate of return "k" may be calculated using an iterative solution process. The discount rate "k" which equates the current share price with the present value of future expected dividends represents the investor's required rate of return.

Q. How did you determine near-term dividend growth rates for each of the comparable companies?

A. We relied on estimates of future dividends and earnings growth published by Value Line, Zacks Investment Research ("Zacks") and SNL Financial ("SNL"). These estimates are all widely available in the investment community and are superior to estimates based solely on historical trend analysis. Published estimates are inherently forward looking, and presumably take into account historical financial trends for each company as well as any future threats and opportunities.

Q. What specific growth rates did you select for each company?

A. Exhibit KCG-3 provides the range of growth estimates for each company, as well as the five-year growth rate selected for use in the multi-stage DCF model. The growth rates from Value Line were derived using the published point estimates for dividends per share ("DPS") and earnings per share ("EPS") for the 2011-2013 timeframe. The five-year EPS projections from Zacks and SNL represent the median or "consensus" growth estimates as determined through surveys of stock research analysts. Differences between these published growth rates for any given company may be expected due to differences in the scope and timing of the surveys conducted. For purposes of selecting a five-year dividend growth rate, we relied on an average of the DPS and EPS growth rates from all three sources. Because analyst estimates for EPS growth are often influential in estimating future dividend growth, we believe that the growth rates selected for each company are representative of investor expectations.

Q. How did you calculate the expected first year dividend (D_1) for each company?

A. Exhibit KCG-4 shows the current quarterly dividend for each company, the five-year DCF growth rate for each company, and the projected quarterly dividends over the next four quarters. Projected quarterly dividends were increased from current levels based on each company's historical timing for dividend changes. The size of each projected dividend change was based on the five-year DCF growth rate. The expected first year dividend (D_1) was then derived by adding the projected quarterly dividends over the next four quarters.

Q. How did you determine the expected long-term growth rates to be used in the DCF model?

A. We considered two key factors that would likely have a significant influence on long-term investor expectations. One factor considered was the prospect for long-term growth in the U.S. economy as a whole. The second factor considered was the prospect for growth over the next five years for the gas utility industry as a whole.

Q. What are the prospects for growth in the gas utility industry as a whole over the next five years?

A. Based on the growth rates published for the comparable company group, which are shown in Exhibit KCG-3, the median expected earnings growth rate for this group ranges from 5.3% to 7.0% depending on the source of data selected. Additionally, in August 2008, Zacks published an industry-wide consensus growth rate of 8.6% for the gas utility industry. Although these earnings estimates cover only a five-year time period, it is reasonable to conclude that investors would take such growth rate expectations into account in assessing the long-term growth rate potential for the industry.

Q. Why is it also necessary to consider the long-term growth prospects for the U.S. economy as a whole when evaluating long-term growth prospects for the industry?

A. Since published growth rates for individual companies and specific industries typically do not extend beyond five years, these growth rate estimates may be significantly influenced by short-term economic factors that are not expected to last in perpetuity. Additionally, as domestic providers of a basic utility service, it is reasonable to assume that the gas distribution industry would have growth prospects that are closely linked to the long-term growth rate of the U.S. economy.

Q. How did you arrive at an estimate of long-term growth for the U.S. economy?

A. Real economic growth in the United States has been remarkably consistent over long periods of time, averaging 3.4% per year from 1929 through 2007, as well as for the post-war period of 1947 through 2007. Although economic growth as measured by gross domestic product ("GDP") can vary significantly over short time periods, the historical growth rate of 3.4% in real GDP has occurred over numerous business cycles, and during extended periods of war and peace. As such, it is reasonable to conclude that investors would expect a similar growth rate in real GDP over the long-run.

In order to derive an estimate of *nominal* GDP growth, it is necessary to add a long-term estimate of expected inflation to the growth in *real* GDP. Expectations for long-term inflation can be calculated by subtracting the yield on long-term U.S. Treasury inflation-protected securities ("TIPS") from the yield-to-maturity on long-term fixed-rate U.S. Treasury securities. However, based on research published by the Federal Reserve Bank of Cleveland, adjustments to these differences in nominal yields are often required in order to derive a more accurate estimate of inflation expectations. These adjustments, which are published on a regular basis by the Federal Reserve Bank of Cleveland, are intended to compensate for the liquidity price premium paid by investors for fixed-rate

Treasury securities and for the inflation risk price premium paid for TIPS securities, two factors which can bias the results obtained from a simple comparison of nominal yields. The impact of these premium adjustments can be seen Exhibit KCG-5, which contains published nominal yield differences for 10-year and 20-year Treasury securities over the past two years, as well as the yield difference on a premium-adjusted basis for 10-year Treasury securities. As depicted in that exhibit, inflation expectations derived from a nominal yield comparison understated the values derived from a premium-adjusted approach by a wide margin from late 2007 through August 2008. Additionally, this exhibit also shows that the implied rate of inflation on a premium-adjusted basis has exceeded 3.0% for much of 2008 before falling to approximately 2.9% in August 2008. When the August 2008 estimate of 2.9% for expected inflation is added to the expected growth in real GDP of 3.4% discussed above, a long-term *nominal* growth rate of 6.3% is obtained for the U.S. economy as a whole.

Q. What is a reasonable estimate of expected long-term growth for the gas distribution industry?

A. An annual growth rate of 6.3% represents a reasonable estimate of investor expectations for earnings and dividend growth over the long-run. This value is consistent with expectations for long-term growth in the U.S. economy as well as published growth rates for the natural gas industry over the next five years.

Q. Did you adjust the expected industry growth rate to arrive at company-specific long-term growth rates?

A. No. Since the gas distribution industry remains heavily regulated, and is fairly homogeneous in terms of business practices and capital investment, the long-term growth rate for each of the comparable companies was assumed to revert to the mean or expected long-term growth rate for the industry. Reversion to the industry mean is a widelypracticed method of forecasting the long-term financial performance of companies in a mature industry like gas distribution.

Q. How did you determine the current stock price for each company?

A. A simple average of the daily closing price was calculated for the month of August 2008, adjusted on an ex-dividend basis for any dividends paid during this period.

Q. What results did you obtain from the multi-stage DCF model?

A. Exhibit KCG-6 summarizes the results obtained, as well as each of the input variables used in the multi-stage DCF calculations. The estimated cost of equity for each company fell within a range of 9.5% to 11.2%. The average value for the sample group was 10.1%.

C. <u>Application of Capital Asset Pricing Model ("CAPM").</u>

Q. Please describe the capital asset pricing model.

A. The CAPM was developed using modern portfolio theory, which is premised on the assumption that capital markets are highly efficient and that investors attempt to optimize their risk/return profiles through diversification. Defining investment risk as the variability of expected future returns, the CAPM further assumes that risk is comprised of two components: systematic risk and unsystematic risk. Systematic risk is unavoidable, and is tied to macroeconomic factors that affect all companies. Unsystematic risk is company-specific, and theoretically can be eliminated through portfolio diversification. As such, the CAPM holds that investors should only be compensated for systematic risk. Mathematically, the CAPM is expressed as follows:

$$k_s = r_f + B_s \times (k_m - r_f)$$

Where: k_s = expected return on stock "s"
r_f = expected risk-free rate of return
B_s = beta for stock "s"
k_m = expected return on overall stock market

As a measure of systematic risk, the "beta" coefficient measures the extent to which returns on a given stock are correlated with returns on the overall market. Historical values for beta can be determined statistically by comparing total returns on a stock to the total returns on a market index. The risk-free rate of return "r_f" is typically estimated using the yield-to-maturity ("YTM") on U.S. Treasury securities. For common stocks, which have no defined maturity date, the YTM on long-dated Treasury bonds should be used as the risk-free rate. The difference between the expected market return and the risk-free rate, shown above as (k_m – r_f), is frequently referred to as the market risk premium. Estimates for the market risk premium are typically derived by examining historical rates of return for common stocks and U.S. Treasury securities over long periods of time. The time series data in the SBBI yearbook published by Morningstar is a commonly used reference for historical return and risk premium data. Using expected values for the market risk premium, beta, and the risk-free rate, the CAPM can be used to estimate the expected rate of return (or cost of equity) for any given stock.

Q. How did you determine expected values for the market risk premium, beta, and the risk-free rate?

A. Using the Morningstar SBBI time series data, we selected the historical market risk premium for the period 1926-2007 as a proxy for the expected market risk premium. This value, 7.1%, represents the difference between the average realized return on large company stocks (12.3%) and the average realized return on 20-year U.S. Treasury bonds (5.2%) over this period. For the risk-free rate we selected the YTM on 20-year U.S.

Treasury bonds. The beta for each company represents the published estimate from Value Line.

Q. What results did you obtain from the CAPM?

A. Exhibit KCG-7 summarizes the results obtained using the average risk-free rate of 4.53% from August of 2008. As may be seen, the estimated cost of equity for each company fell within a range of 10.2% to 11.3%. The average value for the sample group was 10.7%.

D. <u>Application of Bond Yield plus Risk Premium Approach.</u>

Q. Please describe this approach to estimating the cost of equity capital.

A. This method relies upon the well established relationship between risk and required rates of return. Rational investors will naturally demand higher expected rates of return on investments that entail a greater risk of loss. This phenomenon can be readily observed in the bond markets, where investors demand a significantly lower interest rate (or yield-to-maturity) on U.S. Treasury bonds relative to an investment in corporate bonds which entail more risk. The size of this difference in required rates of return, which is commonly referred to as a risk premium, can vary significantly over time as changes occur in the capital markets and as investors' appetite for risk expands and contracts. This same concept can also be extended to investments in common stocks, which are inherently more risky than investments in either U.S. Treasury bonds or high quality corporate bonds. By adding an incremental risk premium to observed bond yields, an estimate can be made for the required rate of return on a common stock investment (i.e., the cost of equity capital for that stock).

Q. Why have you included this third approach to estimating the cost of equity, when the DCF approach and the CAPM have traditionally been assigned more weight by the Commission in utility rate proceedings?

A. During times of turbulence in the financial markets, it is better to use more approaches (rather than fewer) in order to validate the results obtained from the more traditional DCF and CAPM approaches. Additionally, while the CAPM is also a risk premium approach, it is fundamentally different in that it relies heavily on modern portfolio theory and the importance of the "beta" coefficient to investors. By contrast, the bond yield plus risk premium approach is based on a more intuitive and straightforward interpretation of the risk/return relationship.

Q. What are the bond markets signaling with respect to required risk premiums?

A. Risk premiums in the bond markets have increased considerably since mid-2007, indicating a significant contraction in investors' appetite for risk. Exhibit KCG-8 shows the required rate of return or yield-to-maturity ("YTM") on 30-year U.S. Treasury bonds and long-term public utility bonds. The required YTM on public utility bonds in this exhibit is based on an index of investment-grade utility bonds tracked and published by Mergent Bond Record. As may be seen, the required YTM on the 30-year U.S. Treasury bond has fallen since mid-2007 whereas the required YTM on public utility bonds has increased. As may be seen in Exhibit KCG-9, the spread between these required rates of return, otherwise known as a credit spread or credit risk premium, widened from approximately 110 basis points (or 1.1 percent) in early 2007 to approximately 200 basis points (or 2.0 percent) by August 2008. Due to a resurgence of turmoil in the capital markets in September 2008, credit spreads have widened even further since that time, indicating a significant contraction in investors' appetite for risk.

Q. What methods exist for estimating the incremental risk premium required by investors for an investment in common stock?

A. There are many possible approaches, most of which rely on establishing a historical relationship between the cost of equity capital and the required YTM on bonds. The cost of equity capital may be estimated at various points in time by using the DCF and CAPM approaches discussed previously. Alternatively, the allowed returns on equity contained in utility rate orders may also be used as a proxy for the cost of equity capital over time. We have used this latter approach in our analysis since the allowed ROEs contained in utility rate orders are both readily observable and provide a large data set for analytical purposes.

Q. What has been the recent trend in allowed ROEs?

A. Allowed ROEs for regulated utilities have gradually moved lower over the past five years. This trend can be seen in Exhibit KCG-10, which plots the allowed ROEs contained in utility rate orders for domestic gas distribution utilities. The data in Exhibit KCG-10 was taken from reports published by Regulatory Research Associates, a division of SNL Financial that closely monitors utility rate decisions for the investment community.

Q. How do these allowed ROEs compare with the required rates of return on public utility bonds over time?

A. From 2003 through mid-2007 most gas utilities received allowed ROEs that were approximately 3.5% to 5.5% higher than prevailing public utility bond yields at the time the rate orders were issued. As may be seen in Exhibit KCG-11, however, this range of implied equity risk premiums has drifted lower by approximately 0.5% since mid-2007. This downward shift is understandable in light of the regulatory lag inherent in the utility rate-setting process and the increase in public utility bond yields that has occurred since mid-2007. Since public utility bond yields and credit spread risk premiums were likely much lower when these rate cases were originally filed, as opposed to when they were finally decided, it is logical to expect a temporary reduction in the observed difference between allowed ROEs and prevailing public utility bond yields.

Q. What level of equity risk premium is appropriate for use in estimating the cost of equity for gas distribution utilities?

A. Based on the information presented in KCG-11, we selected a range of 3.75% to 5.0% for purposes of estimating the cost of equity capital. This range is based on the average value observed over the period from 2003 through August 2008, plus or minus one standard deviation, a commonly used statistical measure of central tendency.

Q. What is the resulting estimate for the cost of equity capital for gas distribution utilities?

A. Adding the estimated equity risk premium of 3.75% to 5.0% to the average YTM on public utility bonds of 6.48% observed for month of August 2008 results in an estimated cost of equity of approximately 10.2% to 11.5%.

E. <u>Cost of Equity for Comparable Companies</u>.

Q. What conclusions have you reached regarding the cost of equity for the comparable company group?

A. As may be seen in the table below, the range of overlapping values obtained from all three approaches (DCF, CAPM and bond yield plus risk premium) is 10.2% to 11.2%. Recognizing that each methodology has its own strengths and weaknesses, and recognizing that cost of equity analysis is not an exact science, we have selected this range of overlapping values as our estimate of the cost of equity for the comparable company group. The low end of this range represents the minimum value obtained from both the CAPM and the bond yield plus risk premium approach, while the high end of this range represents the high value obtained from the DCF analysis.

Summary of Comparable Company Analysis

	DCF Model	CAPM	Risk Premium	Conclusion
Low end of range	9.5%	10.2%	10.2%	10.2%
High end of range	11.2%	11.3%	11.5%	11.2%

F. Cost of Equity for UNS Gas.

Q. How did you determine the cost of equity for UNS Gas?

A. This is best accomplished by comparing the risk profile of UNS Gas to that of the comparable company group and selecting an appropriate point estimate based on the well established relationship between risk and expected return.

Q. How does the risk profile of UNS Gas differ from that of the comparable company group?

A. Relative to an investment in the group of comparable companies, an equity investment in UNS Gas is decidedly riskier. First, UNS Gas is much smaller than any of the comparable companies, thereby limiting the Company's ability to withstand financial shocks arising from unforeseen events. As indicated in Exhibit KCG-2, the smallest company in the comparable company group had a market capitalization of nearly $1 billion as of August 2008. Second, all of the companies in the comparable company group provide a current return to their shareholders in the form of a dividend, something that UNS Gas has not been able to do since the Company's inception in 2003. Third, while the Company's senior unsecured debt obligations were recently assigned an investment-grade credit rating of Baa3, this rating is at the low end of the credit ratings enjoyed by companies in the comparable company group. As may be seen in Exhibit KCG-2, the median issuer rating for the comparable company group is "A" from Standard & Poor's, "A3/Baa1" from Moody's and A- from Fitch. Consequently, it is reasonable to conclude that the cost of capital (both debt and equity) would be higher for UNS Gas relative to the comparable company group. As may be seen Exhibit KCG-12, investors require a higher rate of return (or YTM) on Baa-rated public utility bonds relative to A-rated public utility bonds. As of August 2008, this credit spread risk premium was approximately 60 basis points (or 0.6%). Since common stock investments are inherently riskier than investment-grade bond investments, this observed risk premium from the bond market can be used as an estimate of the *minimum* equity risk premium required by equity investors in a Baa-rated public utility relative to an A-rated public utility.

Q. What is your estimate of the cost of equity capital for UNS Gas?

A. In light of the risk factors cited above, as well as the credit spread and equity risk premiums applicable to lower-rated utilities, it is reasonable to conclude that the cost of equity for UNS Gas is near the high end of the range established for the comparable company group. As such, a reasonable point estimate for UNS Gas is 11.0%.

Q. Are you recommending an allowed ROE equal to the cost of equity for UNS Gas?

A. Yes I am, assuming that UNS Gas is provided with an opportunity to actually earn something close to its 11.0% cost of equity capital. An allowed ROE of 11.0% is fair to both the Company and its customers based on the analysis presented above. This level of return should also be sufficient to support the financial integrity of UNS Gas, so long as other key aspects of the Company's rate request are granted.

V. COST OF DEBT CAPITAL.

Q. What was UNS Gas' embedded cost of debt for the test-year?

A. As shown on Schedule D-2 of the Company's Application, the weighted average cost of debt for UNS Gas was 6.49% as of the end of the test-year.

Q. What cost of debt do you recommend in this case?

A. I recommend use of the 6.49% cost at the end of the test-year. This cost reflects the interest rate of 6.23% on the two long-term notes issued by UNS Gas in 2003, the amortization of related debt issuance costs, and 50% of the issuance cost amortization and commitment fees on the joint revolving credit facility shared with UNS Electric. Although UNS Gas had no borrowings outstanding on the revolving credit facility at the end of the test-year, maintenance of this facility is critical for purposes of funding seasonal working capital needs and future PGA bank balances, as well as funding a portion of capital expenditures. As such, it is appropriate to reflect the annual fixed cost of this facility in the cost of debt for UNS Gas.

VI. WEIGHTED AVERAGE COST OF CAPITAL.

Q. Please summarize your findings regarding the weighted average cost of capital for UNS Gas.

A. Based on the recommended capital structure, the proposed cost of debt, and UNS Gas' cost of equity capital, I recommend the Commission adopt a WACC of 8.75%, calculated as follows:

	% of Capital Structure	Component Cost	Weighted Average Cost
Long-Term Debt	50.01%	6.49%	3.25%
Common Equity	49.99%	11.00%	5.50%
Total	100.00%		8.75%

VII. ABILITY OF UNS GAS TO EARN ITS COST OF CAPITAL.

Q. Will the rate increase requested by UNS Gas provide the Company with an opportunity to actually earn its cost of capital?

A. Yes, I believe it will.

Q. Have you prepared any financial projections that show the impact of the Company's rate request on UNS Gas' earnings?

A. Yes. The following table summarizes the Company's forecast of net income and earned ROE through 2011 assuming that UNS Gas is granted its full rate request and is allowed to implement new rates in December 2009:

($ Thousands)	2008	2009	2010	2011
Gross Margin	$57,388	$58,966	$69,196	$71,115
Operating Expenses	(37,127)	(40,079)	(42,099)	(44,122)
Operating Income	$20,262	$18,887	$27,097	$26,994
Other Income – Net	255	230	224	743
Interest Expense	(6,552)	(6,467)	(6,504)	(6,910)
Pre-Tax Income	$13,964	$12,651	$20,817	$20,826
Income Tax Exp.	(5,539)	(5,012)	(8,247)	(8,250)
Net Income	$8,425	$7,639	$12,571	$12,576
Ending Common Equity	$101,063	$108,703	$121,273	$133,849
Return on Avg. Equity	8.9%	7.3%	10.9%	9.9%

Q. Does this forecast represent the best estimate of earnings available at this point in time?

A. Yes, it does. Although this forecast relies on numerous key assumptions regarding future sales levels, operating expenses, interest rates, tax rates and capital expenditures, it represents management's best estimate at this point in time. I would also note that a very similar forecast was provided to Moody's as part of the credit rating review process for UNS Gas. The only difference between that forecast and the one summarized in the table above relates to the requested level of rate relief, a value that had to be estimated at the time the forecast was provided to Moody's.

Q. Why is it important to provide the Company an opportunity to earn its allowed ROE?

A. If UNS Gas is not allowed to earn its cost of equity capital, there will be little incentive for UniSource Energy to increase its equity investment in UNS Gas through the continued retention of earnings at UNS Gas and through new contributions of capital.

Without this source of capital, UNS Gas would become more dependent on debt capital to fund its capital expenditures, thereby putting further pressure on the Company's creditworthiness. As discussed previously, maintenance of the Company's creditworthiness is essential to the Company's gas procurement program and the ability of UNS Gas to obtain new capital on reasonable terms. Additionally, UNS Gas would likely be forced to file a series of back-to-back rate cases over the next several years in order to improve its earnings and cash flow. Such a scenario would add additional costs to the Company, its customers and the Commission that could otherwise be avoided through a more constructive, and longer-term, approach to rate making.

In addition to these practical considerations, the financial performance of UNS Gas is also relevant to the setting of just and reasonable rates as described in two key U.S. Supreme Court rulings. In a 1923 ruling involving *Bluefield Water Works and Improvement Co. v. Public Service Commission of West Virginia*, 262 U.S. 679 (1923), the Supreme Court stated:

> The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise the money necessary for the proper discharge of its public duties.

The Bluefield decision established financial integrity and capital attraction as standards to be met in setting the rate of return for a public utility. In a 1944 decision, *Federal Power Comm'n v. Hope Natural Gas,* 320 U.S. 591 (1944), the Supreme Court stated:

> The return to the equity owner should be commensurate with the returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain its credit and to attract capital.

The Hope decision reinforced the standards of financial integrity and capital attraction, and further established the standard of setting a return on equity that is commensurate with the risks faced by the equity investor.

The Hope and Bluefield decisions call into question the legality of any regulatory practice that repeatedly denies a public utility an opportunity to earn a reasonable ROR on its invested capital. Although I am not an attorney, the concept of requiring a return to be "reasonably sufficient" and "commensurate with the returns on investments in other enterprises having corresponding risks" is easy to grasp and difficult to argue with.

VIII. <u>RATE OF RETURN ON FAIR VALUE RATE BASE.</u>

Q. What ROR do you recommend be applied to the Company's FVRB?

A. I recommend that a ROR of 6.80% be applied to the FVRB, even though I believe, as discussed below, that UNS Gas could justify a ROR of 7.30%. The primary reason to forego the full 7.30% is to mitigate the rate impact on our customers in these challenging economic times.

Q. How did you arrive at this value?

A. This ROR, when applied to the Company's FVRB of approximately $256 million, produces an overall rate increase that would provide UNS Gas with a reasonable opportunity to actually earn its cost of capital, to support its creditworthiness and to attract capital on reasonable terms.

Q. How does this ROR compare with the value that would be obtained from the methodology adopted by the Commission in Decision No. 70441 involving Chaparral City Water Company ("Chaparral") and the revised methodology subsequently recommended by the Commission Staff?

A. The ROR requested by UNS Gas is lower. If the approach adopted by the Commission in Decision No. 70441 is applied to the Company's 8.75% WACC (see Section VI of my Direct Testimony) with an estimated inflation rate of 2.9% (see Section IV.B. of my Direct Testimony), the resulting ROR on FVRB would be 7.30%. Likewise, this same value of 7.30% would be obtained from the revised methodology being recommended by the Commission Staff in the current Chaparral rate proceeding (Docket No. W-02113A-07-0551).

Q. Please explain how a ROR value of 7.30% would be obtained using either approach.

A. Certainly. With respect to the approach adopted in Decision No. 70441, where the ROR on FVRB was derived by adjusting the cost of equity downward by the expected rate of inflation, the following result would be obtained for UNS Gas using a 2.9% rate of inflation:

	% of Capital Structure	Modified Cost *	Weighted Average Cost
Long-Term Debt	50.01%	6.49%	3.25%
Common Equity	49.99%	8.10%	4.05%
Total	100.00%		7.30%

* Note: Modified cost of equity = 11.0% - 2.9% = 8.1%.

Staff's revised methodology, which is explained in the Direct Testimony of Gordon L. Fox, dated October 3, 2008, in Docket No. W-02113A-07-0551, employs a slightly different inflation rate adjustment. Instead of adjusting only the cost of equity by the full rate of inflation, the modified approach adopted by Mr. Fox adjusts both the cost of debt and cost of equity by one-half of the expected rate of inflation. Using the 2.9% expected rate of inflation discussed earlier in my testimony, the following result would be obtained for UNS Gas:

	% of Capital Structure	Modified Cost *	Weighted Average Cost
Long-Term Debt	50.01%	5.04%	2.53%
Common Equity	49.99%	9.55%	4.77%
Total	100.00%		7.30%

* Note: Modified cost of debt = 6.49% - 1.45% = 5.04%.
Modified cost of equity = 11.0% - 1.45% = 9.55%.

Q. In the Arizona Court of Appeals ruling that led to Commission Decision No. 70441, did the Court specify any particular method for the determination of an appropriate ROR on FVRB?

A. No. My non-legal understanding of that decision, dated February 13, 2007, is that the Court of Appeals found that the Commission has wide latitude in setting the ROR on FVRB. Although the Court found the method used in the original Chaparral Decision to be unconstitutional, no particular method of determining the ROR on FVRB was specified by the Court.

Q. Why is UNS Gas requesting a ROR on FVRB that is lower than would be obtained through other methods that have been approved by the Commission and recommended by the Commission Staff?

A. There are several reasons. First, it appears that the Commission has wide discretion in setting the ROR on FVRB, provided that fair value is adequately considered in the rate setting process. Second, the Company believes that the requested ROR, when applied to the proposed FVRB, will be sufficient to provide UNS Gas with an opportunity to earn its cost of capital and to attract new capital on reasonable terms. Third, in light of the current economic environment, the Company would like to limit the impact of its rate request on customers. Under these circumstances, it appears that the public interest would be best served if the Commission were to use its discretion in setting a ROR on FVRB that gives UNS Gas an opportunity to earn its cost of capital while at the same time limiting the impact on customers.

IX. CARRYING COST ON PURCHASED GAS ADJUSTOR BALANCE.

Q. What is the current carrying cost applicable to PGA balances carried by UNS Gas?

A. The current rate applicable to PGA balances, whether they are in an over- or under-recovered position, is the 3-month Financial Commercial Paper rate as published in the Federal Reserve Statistical Release H.15.

Q. Does this rate reflect the actual cost to UNS Gas of financing PGA cost deferrals?

A. No. Under the joint revolving credit facility shared with UNS Electric, UNS Gas may borrow at a rate of LIBOR plus 1.0%. This rate is typically much higher than the interest rate on commercial paper issued by large creditworthy financial institutions. As may be seen in Exhibit KCG-13, financial commercial paper rates and LIBOR tracked very closely to one another through mid-2007. However, since that time, rates on 3-month LIBOR borrowings have been significantly more expensive than rates on 3-month financial commercial paper. When the additional 1.0% credit margin is added to LIBOR to reflect the cost of short-term borrowing to UNS Gas, it is readily apparent that the financial commercial paper rate is not adequate in terms of providing full cost recovery to UNS Gas.

Q. What carrying cost do you recommend be applied to the Company's PGA balances?

A. I recommend use of the 3-month LIBOR rate as published by the Federal Reserve, plus 1.0% to cover the additional margin that UNS Gas must pay for short-term borrowings.

Q. Is the Company recommending any other modification to the PGA mechanism adopted by the Commission in Decision No. 70011?

A. No.

X. SUMMARY OF SCHEDULES.

A. Schedules A-3 and A-4.

Q. Please describe the information contained in Schedules A-3 and A-4.

A. Schedule A-3 presents a summary of the capital structure, capital ratios and weighted cost of capital for the years ending December 31, 2006 and December 31, 2007, and the test-year ending June 30, 2008. Schedule A-3 also presents similar information on a forecasted basis for the twelve months ending June 30, 2009.

Schedule A-4 provides historical and projected information relating to construction expenditures, net plant in service and gross utility plant in service. The projected information for the period 2009-2011 is consistent with the base case financial forecast discussed elsewhere in my Direct Testimony. The values for net plant in service and gross utility plant are presented on a regulatory accounting basis, which differs slightly from the presentation used in the Company's audited financial statements and the financial forecast.

B. Schedules D-1 through D-4.

Q. Please describe Schedule D in the Company's Application.

A. Schedule D consists of four parts, Schedules D-1 through D-4.

Schedule D-1 contains the Company's actual and proposed capital structure and weighted average cost of capital for the test-year ended June 30, 2008. This schedule also contains projected information pertaining to the Company's capital structure and weighted average cost of capital as of June 30, 2009.

Schedule D-2 contains detailed information on UNS Gas' cost of long-term debt. Schedule D-2, page 1, provides a calculation of the weighted average cost of long-term debt for the test-year ended June 30, 2008. Schedule D-2, page 2, contains a projection of the Company's cost of debt as of June 30, 2009.

Schedule D-3 indicates that UNS Gas had no preferred stock outstanding during the test-year, and that there are no plans to issue preferred stock.

Schedule D-4 contains the Company's estimated cost of equity capital and the proposed ROE for use in this proceeding.

C. Schedules F-1 through F-4.

Q. Please describe Schedule F in the Company's Application.

A. Schedule F consists of four parts, Schedules F-1 through F-4.

Schedule F-1 contains a summary income statement and a return on common equity calculation for the test-year ended June 30, 2008. This same information is presented on a projected basis for the year ending June 30, 2009. Pursuant to Commission filing requirements, the projected year information is presented using two different rate assumptions: (i) a continuation of present rates; and (ii) an assumed implementation of proposed rates as of July 1, 2008.

Schedule F-2 contains a summary cash flow statement for the test-year ended June 30, 2008. This same information is presented on a projected basis for the year ending June 30, 2009. The projected year information is presented using two different rate assumptions: (i) a continuation of present rates; and (ii) an assumed implementation of proposed rates as of July 1, 2008.

Schedule F-3 contains information on the Company's construction expenditures during the test-year ended June 30, 2008. This same information is presented on a projected basis for calendar years 2009, 2010 and 2011.

Schedule F-4 contains a description of key forecast assumptions used in preparing the projected information appearing in Schedules F-1 through F-3.

Q. Please comment on the projected information appearing in Schedules F-1 and F-2.

A. The financial projections that assume a continuation of current rates through June 30, 2009 were taken from a base case financial forecast prepared for UNS Gas, the same base case forecast discussed elsewhere in my Direct Testimony. It should be noted that this forecast is based on numerous assumptions regarding sales growth, natural gas prices, operating and capital expenditure levels, and other factors that are subject to change over time. Additional financial projections are provided in Schedules F-1 and F-2 that assume implementation of the Company's requested rates beginning July 1, 2008. These additional projections are included for the purpose of complying with the Commission's rate filing requirements. Since it is unlikely the Company will be allowed to increase its rates prior to late 2009, projections assuming that the requested rates were implemented in July 2008 have limited analytical value.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

EXHIBIT

KCG-1

Moody's Investors Service

Global Credit Research
Credit Opinion
30 OCT 2008

Credit Opinion: UNS Gas, Inc.

UNS Gas, Inc.

Tucson, Arizona, United States

Ratings

Category	Moody's Rating
Outlook	Stable
Bkd Senior Unsecured	Baa3
Ult Parent: UniSource Energy Corporation	
Outlook	Stable
Sr Sec Bank Credit Facility	Ba1

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Opinion

Corporate Profile

UNS Gas, Inc. (UNS Gas: Baa3 senior unsecured, stable outlook) is a local gas distribution utility serving approximately 146,000 retail customers in Mohave, Yavapai, Coconino and Navajo counties of northern Arizona and Santa Cruz County in southeastern Arizona. UNS Gas is a subsidiary of UniSource Energy Services (UES) which is also the parent of UNS Electric, Inc. (UNS Electric: Baa3 guaranteed revolving credit facility, stable outlook), a transmission and distribution utility serving approximately 90,000 retail customers in Mohave and Santa Cruz counties in Arizona. UES is a wholly owned subsidiary of UniSource Energy Corporation (UNS: Ba1 senior secured bank credit facility - security limited to stock of certain subsidiaries, stable outlook). UNS' largest subsidiary is Tucson Electric Power (TEP: Baa3 senior unsecured, stable outlook), a vertically integrated electric utility serving approximately 400,000 retail customers in the community of Tucson Arizona.

Recent Developments

On October 28, 2008, Moody's assigned a Baa3 rating to approximately $100 million of senior unsecured guaranteed notes (the Notes) of UNS Gas, Inc. and assigned a stable outlook. The Notes are guaranteed by UES.

In July and August 2008, Moody's assigned ratings of Baa3 to UNS Gas and UNS Electric's joint $60 million guaranteed credit facility, and to UNS Electric's $100 million senior unsecured guaranteed notes. The facility and the UNS Electric notes are also guaranteed by UES.

Rating Rationale

The Baa3 rating assigned to UNS Gas' senior unsecured notes reflects the interdependence that currently exists between the company and its affiliate UNS Electric as a result of their shared credit facility and parental guarantee from UES. The rating reflects our view of the consolidated credit quality of UES, which guarantees the debt of both UNS Gas and UNS Electric. The UNS Gas/UNS Electric shared senior unsecured revolving credit facility, and the guaranteed senior unsecured notes of UNS Electric, are also rated Baa3. For additional information, please see July 8, 2008 press release and related July 9, 2008 credit opinion for UNS Gas/UNS Electric.

On a stand-alone basis, following the framework outlined in Moody's Rating Methodology for the North American Regulated Gas Distribution Industry (Local Gas Distribution Companies), (the LDC Methodology),UNS Gas' credit profile maps to a Baa2. The Methodology focuses on core factors including: degree of profitability, the level of regulatory support, degree of ring fencing, and financial strength and flexibility as evidenced by key financial metrics and liquidity.

We elaborate on the various key rating drivers for UNS Gas' mapped underlying Baa2 credit quality below:

Factor 1: Sustainable Profitability

UNS Gas' overall profitability, as measured by return on average common equity (ROE) and EBIT per customer, has been improving and currently maps to the low end of the range for investment grade issuers. Over the medium term, we expect these metrics to remain within the Baa range.

In 2006 and 2007, as earnings declined while equity increased due to incremental investment and earnings retention, UNS Gas' ROE was under 6%. In November 2007, UNS Gas received a $5 million rate increase with new rates effective December 2007. As a result, ROE, adjusted for Moody's standard adjustments, improved to approximately 7.7% on trailing twelve month basis as of June 30, 2008. This is within the range of 5-9% identified for Baa issuers, although still below the 10% ROE authorized by the ACC in its November order. Due to planned investments in its system significantly above depreciation, UNS Gas will likely need on-going rate relief with much less regulatory lag in order to maintain its ROE.

UNS Gas' EBIT/ Customer metric also currently maps to the lower end of the Baa range. The ratio declined modestly from 2005 through 2007 due to limited earnings growth without a rate case combined with above average customer growth. Due to general economic conditions, customer growth in 2007 declined to approximately 2%, which is lower than previous years. Growth in 2008 is expected to be less than 1%, and is expected to remain modest over the near-term. With customer growth slowing and the recent rate increase, the three year average metric may be able to move into the upper Baa range.

Factor 2: Regulatory Support

The regulatory supportiveness factor has been scored in the Ba range reflecting Moody's view of the traditionally challenging Arizona regulatory environment, where regulatory lag has historically been significant for both gas and electric utilities. The scoring also recognizes the existence of fuel and gas purchase adjustment mechanisms designed to shorten the time to recovery of these more volatile costs.

UNS Gas' last fully litigated rate case was resolved in approximately 16 months with new rates in place reflecting a historic test year that ended two years before the decision. This level of regulatory lag makes adequate and timely recovery difficult to achieve. UNS Gas did receive approximately 55% of its request though its ROE was lowered from its requested 11% to 10%. The ACC also rejected requests by UNS Gas to allow revenue decoupling and CWIP in rate base.

UNS Gas filed a new rate case in February 2008 requesting a $10 million rate increase (6.6%) premised on an 11% ROE and 50% equity ratio and using a September 2007 test year end. In March, ACC Staff informed UNS Gas that the test year did not meet the ACC's requirements for elapsed time since new rates from UNS Gas' prior rate case were implemented, and as such, the filing was viewed as deficient. UNS Gas plans to file a revised general rate case in the fourth quarter using a June 30, 2008 test year. Moody's expects further need for rate cases over the near-term due to regulatory lag and on-going capital expenditures.

Arizona gas utilities appear to have moderately well functioning fuel cost recovery mechanisms. UNS Gas' Purchased Gas Adjustor mechanism may be changed monthly based on a comparison of rolling twelve-month average gas cost and gas costs in base rates though there are limits to the levels of adjustments over a twelve month period. UNS Gas may also request a surcharge to recover deferred balances.

Factor 3: Ring Fencing

Ring-fencing at UNS Gas maps within the Baa criteria outlined in the LDC Methodology. Although the risk of exposure to non-regulated activities is considered quite modest as both UNS Gas and UNS Electric are fully regulated, there is significant interdependence between the UES subsidiaries in the form of a shared credit agreement and parental guarantees. Services are also shared with UniSource's primary regulated utility TEP. UNS Gas contributed approximately 50% of consolidated UES' EBIT and approximately 6% of UniSource's EBIT in 2007.

The Arizona Corporation Commission (ACC) has not restricted UNS Gas' ability to pay dividends to its parent; however, the utility has not paid a dividend over the last several years. There are dividend restrictions under the company's notes and credit agreement, but UNS Gas is well within the limits imposed by these documents.

Factor 4: Financial Strength and Flexibility

The four metrics that comprise Financial Strength and Flexibility fall within the mid Baa to low A range.

UNS Gas' retained cash flow to debt (RCF/Debt) has been within the 12-16% range since 2005, and may improve moderately over the near-term. UNS Gas is somewhat unique in that it has been allowed to retain 100% of its free cash flow over the last couple of years, which has significantly strengthened its financial profile. Using the LDC Methodology framework, which is based on three-year averages, UNS Gas' RCF / Debt ratio maps to a rating of Baa1. This metric may continue to improve, and potentially move to the low A range as UNS Gas continues to grow its rate base and seek ongoing rate relief.

UNS Gas' debt to capitalization (Debt/Cap) has improved from approximately 62% in 2004 to 52% at the end of 2007. Debt/Cap has improved as the utility reinvested its earnings to fund its capital expenditures without issuing new debt. UNS Gas' three year average Debt/Cap currently maps to a Baa1. As of June 30, 2008, Debt/Cap was 48.5%. A three-year average Debt/Cap in the range of 47% - 50% maps to a low A rating.

UNS Gas' EBIT to Interest ratio fell from 2004 through 2007 due to moderately rising interest and depreciation expenses and a lack of rate relief over that time. As a result, the metric maps to a low Baa rating for the average of 2005 through 2007. With the recent moderate rate relief, EBIT has improved and interest expense has levelized in 2008. EBIT to Interest improved to 2.7x for the twelve months ended June 30, 2008 and, over the medium term, it is projected to remain in the upper 2x levels. With further rate relief and cost control, the metric may improve to above 3x which would map to the A range.

The free cash flow to funds from operations (FCF/FFO) metric indicates the degree of flexibility (or shortfall) that a utility has available should there be significant, rapid changes in gas prices or if other unexpected liquidity needs arise. The measure is generally negative for most utilities indicating an on-going need for new financing. The metric has historically been fairly volatile for UNS Gas as it was (96%) in 2005, 17% in 2006 and (5%) in 2007. The FCF/FFO three-year average through year end 2007 maps to the low A range. Going forward, free cash flow is likely to stay modestly negative as cash from operations is expected to approximate capital expenditures while the utility continues to not pay any dividends over the near-term. As a result, FCF/FFO is projected to remain in the low A range.

Liquidity Profile

UNS Gas cash flow profile is relatively stable with operating cash flow approximately covering capital expenditures in 2006 and 2007. In 2007, cash from operations primarily covered capital expenditures of approximately $23 million. Over the near-term, capital expenditures of $20-25 million annually are expected to continue to be funded roughly by cash flow from operations.

UNS Gas has two $50 million issues of senior unsecured notes outstanding, one maturing in 2011 and one maturing in 2015. UNS Gas' short term liquidity needs are supported by a joint UNS Gas/UNS Electric $60 million credit facility which matures August 2011. Either borrower may borrow up to a maximum of $45 million, so long as the combined amount does not exceed $60 million. As of June 30, 2008, no amounts were drawn under the shared credit facility.

The UNS Gas/UNS Electric credit facility contains two financial covenants applicable to each borrower: for UNS Electric a maximum debt to capital ratio of 65% and a minimum interest coverage ratio of 2.25x; for UNS Gas a maximum debt to capital ratio of 67%, and a minimum interest coverage of 2.25x. As of June 30, 2008, the ratios were 53% and 4.24x at UNS Electric and 50% and 3.91x at UNS Gas.

Moody's assumes that UNS Gas will manage the amount of its near term obligations within the limits of its available sources of cash, including its committed bank credit facilities.

Rating Outlook

The stable outlook for UNS Gas reflects our expectations of continued stable or modestly improved cash flows resulting from rate case decisions, an assumption that any increases in the cost of gas will continue to be recovered on a relatively timely basis, and our understanding that future capital expenditures will be financed in a manner intended to maintain UNS Gas' current level of financial strength and flexibility.

What Could Change the Rating - Up

UNS Gas' rating is currently constrained by its interdependence with UNS Electric and our view of the consolidated credit quality of UES. In the event this interdependence was reduced while UNS Gas retained its similar credit profile, the rating or outlook could be revised upward. Alternatively, if there were to be an improvement in the consolidated credit quality of UES, this could result in positive rating action for UNS Gas.

What Could Change the Rating - Down

A downward revision could occur if there is deterioration in the credit quality or ratings of UNS Gas or the consolidated credit profile of UES or UNS Electric. If UNS Gas credit metrics decline to the low Baa/high Ba range, for example, RCF/Debt below 10% or EBIT / Interest coverage of less than 2x, or if regulatory support significantly worsens, then there could be a downward revision in the rating or outlook.

Rating Factors

UNS Gas, Inc.

Local Gas Distribution	Aaa	Aa	A	Baa	Ba	B	Caa
Factor 1: Sustainable Profitability (20%)							
a) Return on Equity (15%)				X			
b) EBIT to Customer Base (5%)				X			
Factor 2: Regulatory Support (10%)							
a) Regulatory Support and Relationship					X		
Factor 3: Ring Fencing (10%)							
a) Ring Fencing				X			
Factor 4: Financial Strength and Flexibility (60%)							
a) EBIT/Interest (15%)				X			
b) Retained Cash Flow/Debt (15%)				X			
c) Debt to Book Capitalization (excluding goodwill) (15%)				X			
d) Free Cash Flow/Funds from Operations (15%)			X				
Rating:							
a) Methodology Model Implied Senior Unsecured Rating				**Baa2**			
b) Actual Senior Unsecured Equivalent Rating				**Baa3**			

EXHIBIT

KCG-2

Exhibit KCG-2

UNS Gas, Inc.
Comparable Company Data

	Gas Distribution Customers	Common Equity as % of Total Capital	Issuer Credit Rating			Market Capitalization ($ Millions)
			S&P	Moody's	Fitch	
AGL Resources Inc.	2,291,000	44.0%	A-	Baa1	A-	$ 2,504
Atmos Energy Corp.	3,205,456	48.5%	BBB	Baa3	BBB	$ 2,379
Laclede Group, Inc.	631,414	56.7%	A	Baa2	A-	$ 947
New Jersey Resources Corporation	467,448	51.2%	A	Aa3	-	$ 1,424
Nicor Inc.	1,912,000	65.6%	AA	A2	A	$ 1,901
Northwest Natural Gas Company	656,784	51.6%	AA-	A3	-	$ 1,191
Piedmont Natural Gas Company, Inc.	963,266	51.3%	A	A3	-	$ 2,007
South Jersey Industries, Inc.	336,410	51.8%	BBB+	Baa2	-	$ 1,021
Southwest Gas Corporation	1,819,000	44.1%	BBB-	Baa3	BBB	$ 1,226
WGL Holdings, Inc.	1,054,958	59.8%	AA-	A2	A+	$ 1,603
Median Value	1,009,112	51.5%	A	A3 / Baa1	A-	$ 1,514

Note:

Where parent company ratings are unavailable, the ratings shown above are those assigned to the largest gas utility subsidiary.

Market Capitalization as of August 2008. Equity ratios as of June 30, 2008.

Sources: SNL Financial for all but Market Capitalization data. Market Capitalization data is from Zacks Investment Research, Value Line, and Yahoo! Finance.

EXHIBIT

KCG-3

Exhibit KCG-3

UNS Gas, Inc.
Projected Growth Rates for Earnings and Dividends
Comparable Company Group

	Value Line Dividend Growth (3 to 5 Years)	Projected Earnings Growth: Value Line (3 to 5 Years)	Projected Earnings Growth: Zacks Investment Research (5-Year)	Projected Earnings Growth: SNL Financial (5-Year)	5-Year Growth Rate for DCF
AGL Resources	2.3%	3.9%	4.8%	5.3%	4.1%
Atmos Energy Corp.	1.9%	5.2%	5.3%	5.0%	4.3%
Laclede Group, Inc.	2.6%	1.8%	10.0%	NA	4.8%
New Jersey Resources Corporation	5.2%	6.4%	8.0%	6.0%	6.4%
Nicor Inc.	0.0%	10.9%	5.8%	4.5%	5.3%
Northwest Natural Gas Company	5.5%	6.0%	6.5%	5.0%	5.7%
Piedmont Natural Gas Company	3.7%	4.5%	5.4%	6.0%	4.9%
South Jersey Industries, Inc.	3.9%	7.5%	8.3%	7.0%	6.7%
Southwest Gas Corporation	4.2%	6.8%	8.0%	6.0%	6.2%
WGL Holdings, Inc.	2.7%	1.5%	7.5%	4.0%	3.9%
Median Value for Group	3.2%	5.6%	7.0%	5.3%	5.1%

Sources: Value Line, Zacks Investment Research, SNL Financial

EXHIBIT

KCG-4

Exhibit KCG-4

UNS Gas, Inc.
Calculation of Expected First-Year Dividend
Comparable Company Group

	Current Quarterly Dividend	Last Change in Dividend Payment	Recent Ex-Dividend Date	5-Year Growth Rate for DCF	Expected Quarterly Dividends (as of 8/31/08)					Expected First-Year Dividend
					3Q 2008	4Q 2008	1Q 2009	2Q 2009	3Q 2009	
AGL Resources	$0.420	1Q 2008	08/13/08	4.1%		$0.420	$0.437	$0.437	$0.437	$1.731
Atmos Energy Corp.	$0.325	4Q 2007	08/21/08	4.3%		$0.339	$0.339	$0.339	$0.339	$1.356
Laclede Group, Inc.	$0.375	4Q 2007	06/09/08	4.8%	$0.375	$0.393	$0.393	$0.393		$1.554
New Jersey Resources Corporation	$0.280	1Q 2008	06/11/08	6.4%	$0.280	$0.280	$0.298	$0.298		$1.156
Nicor Inc.	$0.465	None Recent	06/26/08	5.3%	$0.465	$0.465	$0.465	$0.465		$1.860
Northwest Natural Gas Company	$0.375	4Q 2007	07/29/08	5.7%		$0.397	$0.397	$0.397	$0.397	$1.586
Piedmont Natural Gas Company	$0.260	1Q 2008	06/23/08	4.9%	$0.260	$0.260	$0.273	$0.273		$1.065
South Jersey Industries, Inc.	$0.270	4Q 2007	06/06/08	6.7%	$0.270	$0.288	$0.288	$0.288		$1.134
Southwest Gas Corporation	$0.225	2Q 2008	08/13/08	6.2%		$0.225	$0.225	$0.239	$0.239	$0.928
WGL Holdings, Inc.	$0.355	2Q 2008	07/08/08	3.9%		$0.355	$0.355	$0.369	$0.369	$1.448

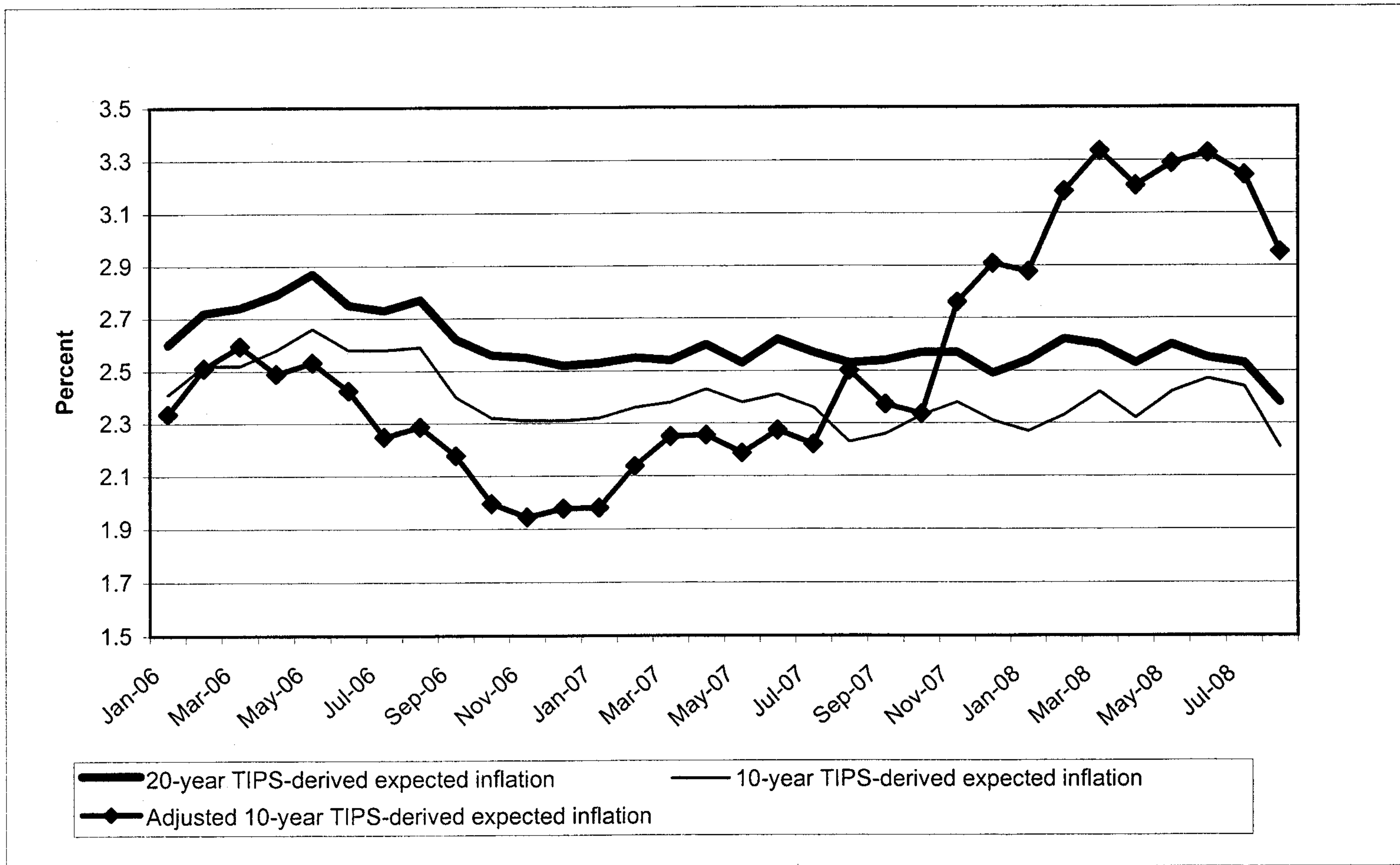
Source: Dividend information is from Yahoo! Finance

EXHIBIT

KCG-5

Exhibit KCG-5

UNS Gas, Inc.
Implied Rate of Inflation from U.S. Treasury Securities



Source: Federal Reserve Bank of Cleveland

EXHIBIT

KCG-6

Exhibit KCG-6

UNS Gas, Inc.
Multi-Stage DCF Analysis
Comparable Company Group

	Recent Avg. Share Price	Projected Dividends					Long-Term Growth	Estimated Cost of Equity
		Year 1	Year 2	Year 3	Year 4	Year 5		
AGL Resources	$ 32.85	$1.73	$1.80	$1.87	$1.95	$2.03	6.3%	11.2%
Atmos Energy Corp.	$ 26.75	$1.36	$1.42	$1.48	$1.54	$1.61	6.3%	11.0%
Laclede Group, Inc.	$ 44.93	$1.55	$1.63	$1.71	$1.79	$1.88	6.3%	9.6%
New Jersey Resources Corporation	$ 34.96	$1.16	$1.23	$1.31	$1.39	$1.48	6.3%	9.6%
Nicor Inc.	$ 43.60	$1.86	$1.96	$2.06	$2.17	$2.29	6.3%	10.4%
Northwest Natural Gas Company	$ 46.95	$1.59	$1.68	$1.77	$1.88	$1.98	6.3%	9.6%
Piedmont Natural Gas Company	$ 28.07	$1.07	$1.12	$1.17	$1.23	$1.29	6.3%	9.9%
South Jersey Industries, Inc.	$ 34.91	$1.13	$1.21	$1.29	$1.38	$1.47	6.3%	9.6%
Southwest Gas Corporation	$ 29.26	$0.93	$0.99	$1.05	$1.11	$1.18	6.3%	9.5%
WGL Holdings, Inc.	$ 32.74	$1.45	$1.51	$1.56	$1.63	$1.69	6.3%	10.4%
Average Value for Group								10.1%

Source: Share prices are from Yahoo! Finance

EXHIBIT

KCG-7

Exhibit KCG-7

UNS Gas, Inc.
Application of Capital Asset Pricing Model
Comparable Company Group

	Risk-Free Rate		Beta		Equity Risk Premium		Estimated Cost of Equity
AGL Resources Inc.	4.53%	+	0.85	x	7.10%	=	10.6%
Atmos Energy Corp.	4.53%	+	0.85	x	7.10%	=	10.6%
Laclede Group, Inc.	4.53%	+	0.90	x	7.10%	=	10.9%
New Jersey Resources Corporation	4.53%	+	0.85	x	7.10%	=	10.6%
Nicor Inc.	4.53%	+	0.95	x	7.10%	=	11.3%
Northwest Natural Gas Company	4.53%	+	0.80	x	7.10%	=	10.2%
Piedmont Natural Gas Company	4.53%	+	0.85	x	7.10%	=	10.6%
South Jersey Industries, Inc.	4.53%	+	0.85	x	7.10%	=	10.6%
Southwest Gas Corporation	4.53%	+	0.90	x	7.10%	=	10.9%
WGL Holdings, Inc.	4.53%	+	0.90	x	7.10%	=	10.9%
Average Value for Group							10.7%

Notes

Risk-free rate is 20-Year Treasury Constant Maturity Rate (Average for August 2008).

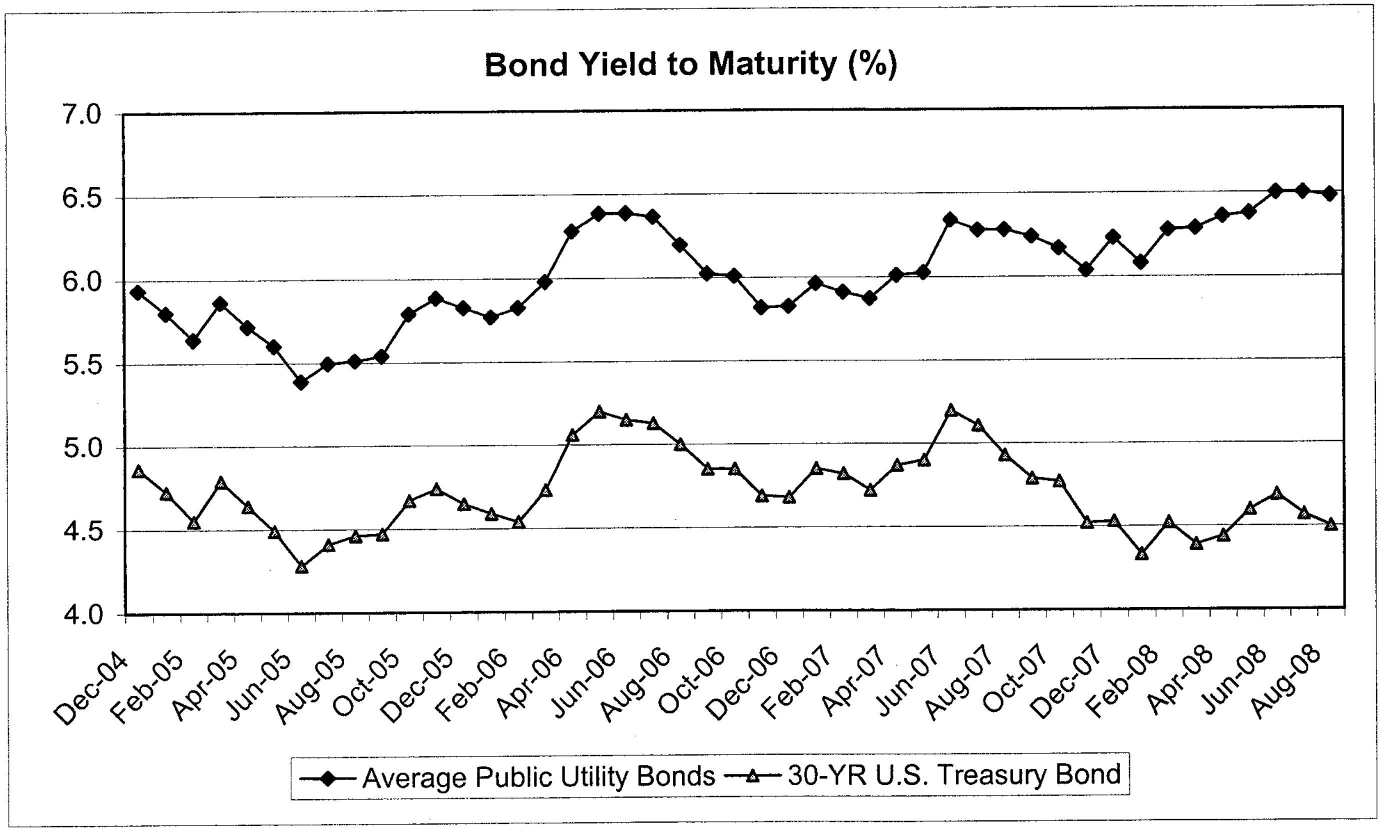
Sources: 20-Year U.S. Treasury Constant Maturity Rate is from the Federal Reserve Board of Governors Web site (www.federalreserve.gov). Beta values are from Value Line. Equity Risk Premium is from Morningstar SBBI 2008 Yearbook.

EXHIBIT

KCG-8

Exhibit KCG-8

UNS Gas, Inc.
Yields on Public Utility Bonds and U.S. Treasury Bonds



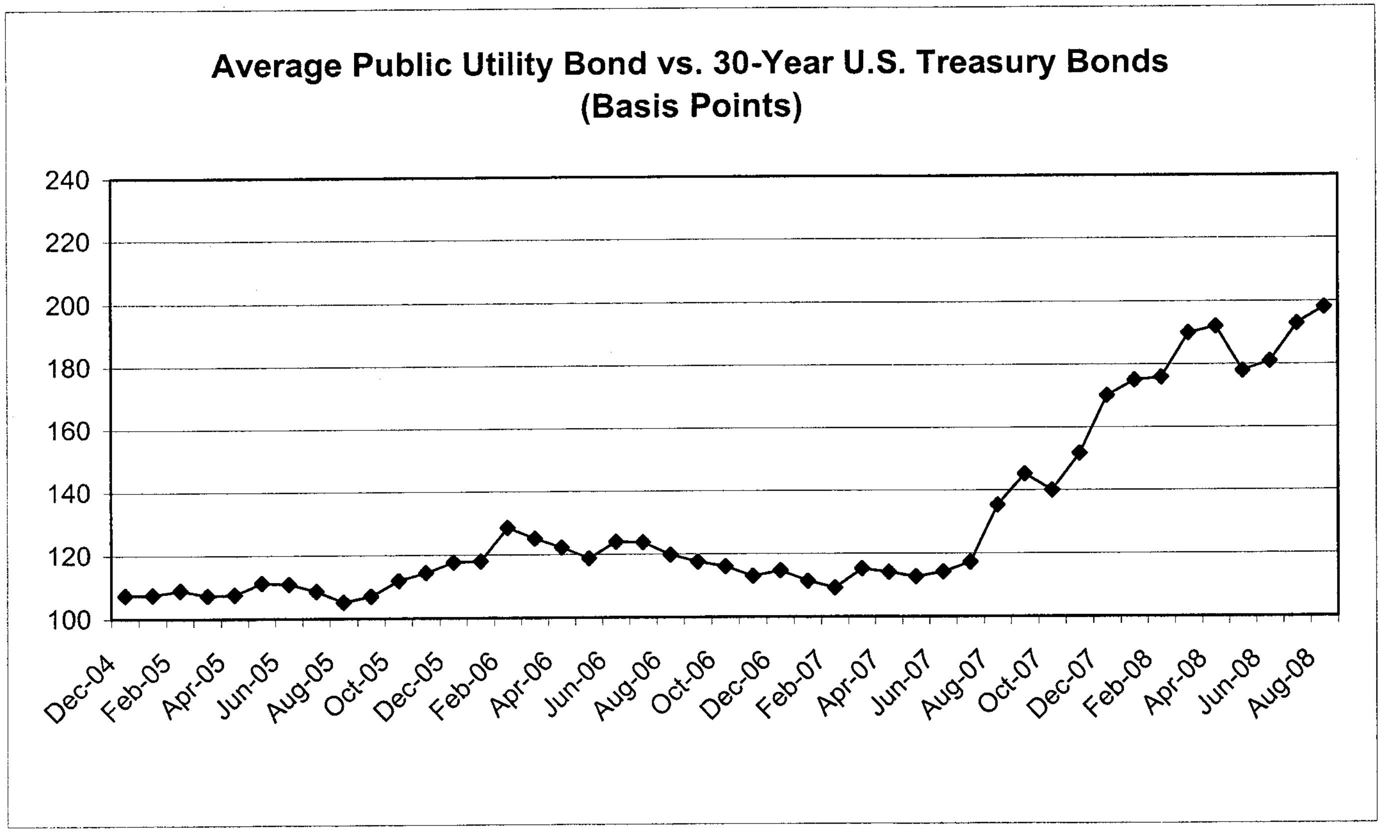
Sources: Public Utility bond yields are from Mergent Bond Record. 30-Yr. U.S. Treasury bond yields are from Mergent Bond Record (Dec 2004 - Jan 2006 data) and the Federal Reserve Board of Governors Web site (www.federalreserve.gov, Feb 2006 - August 2008 data).

EXHIBIT

KCG-9

Exhibit KCG-9

UNS Gas, Inc.
Public Utility Bond Credit Spreads



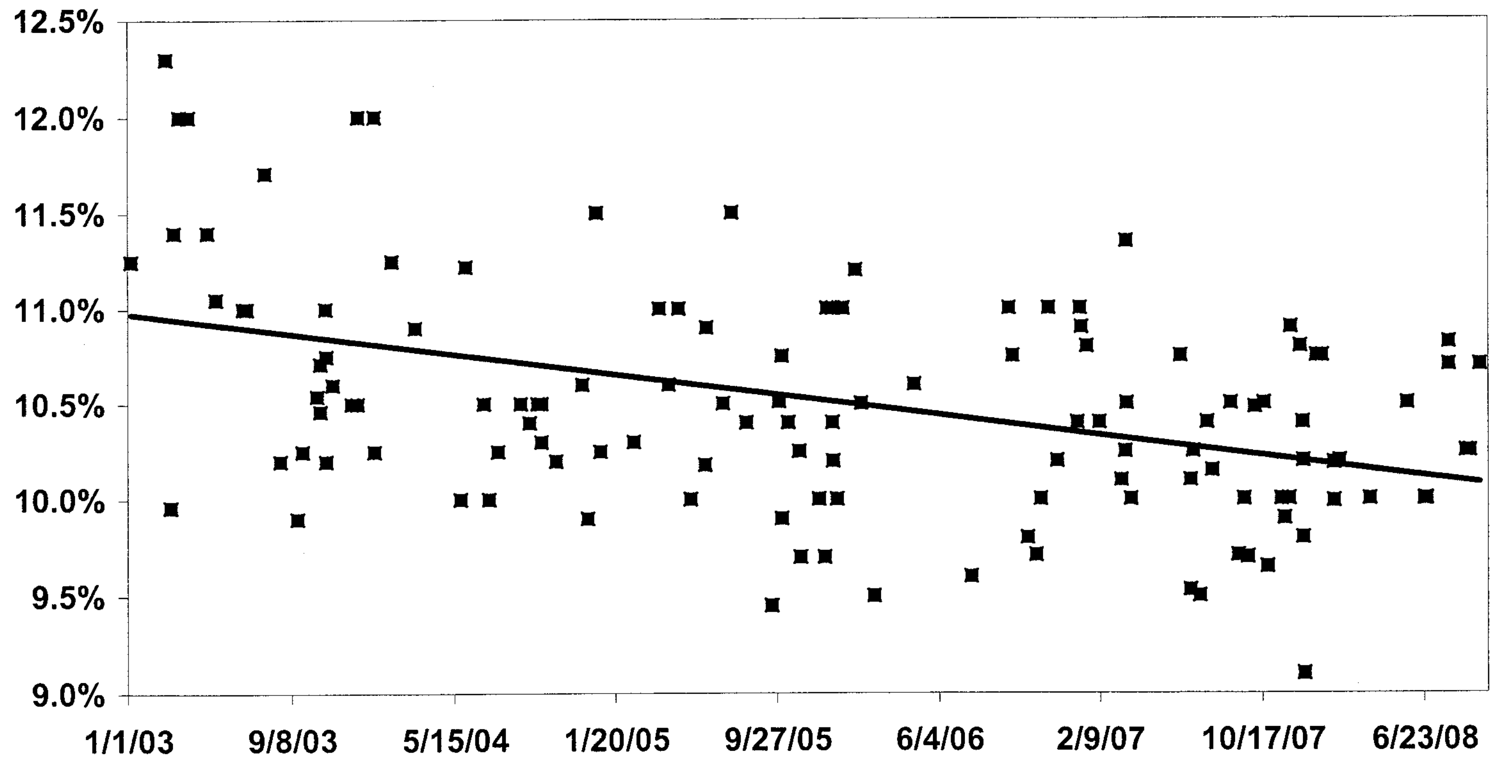
Sources: Public Utility bond yields are from Mergent Bond Record. 30-Yr. U.S. Treasury bond yields are from Mergent Bond Record (Dec 2004 - Jan 2006 data) and the Federal Reserve Board of Governors Web site (www.federalreserve.gov, Feb 2006 - August 2008 data).

EXHIBIT

KCG-10

Exhibit KCG - 10

UNS Gas, Inc.
Allowed ROEs for Gas Distribution Companies



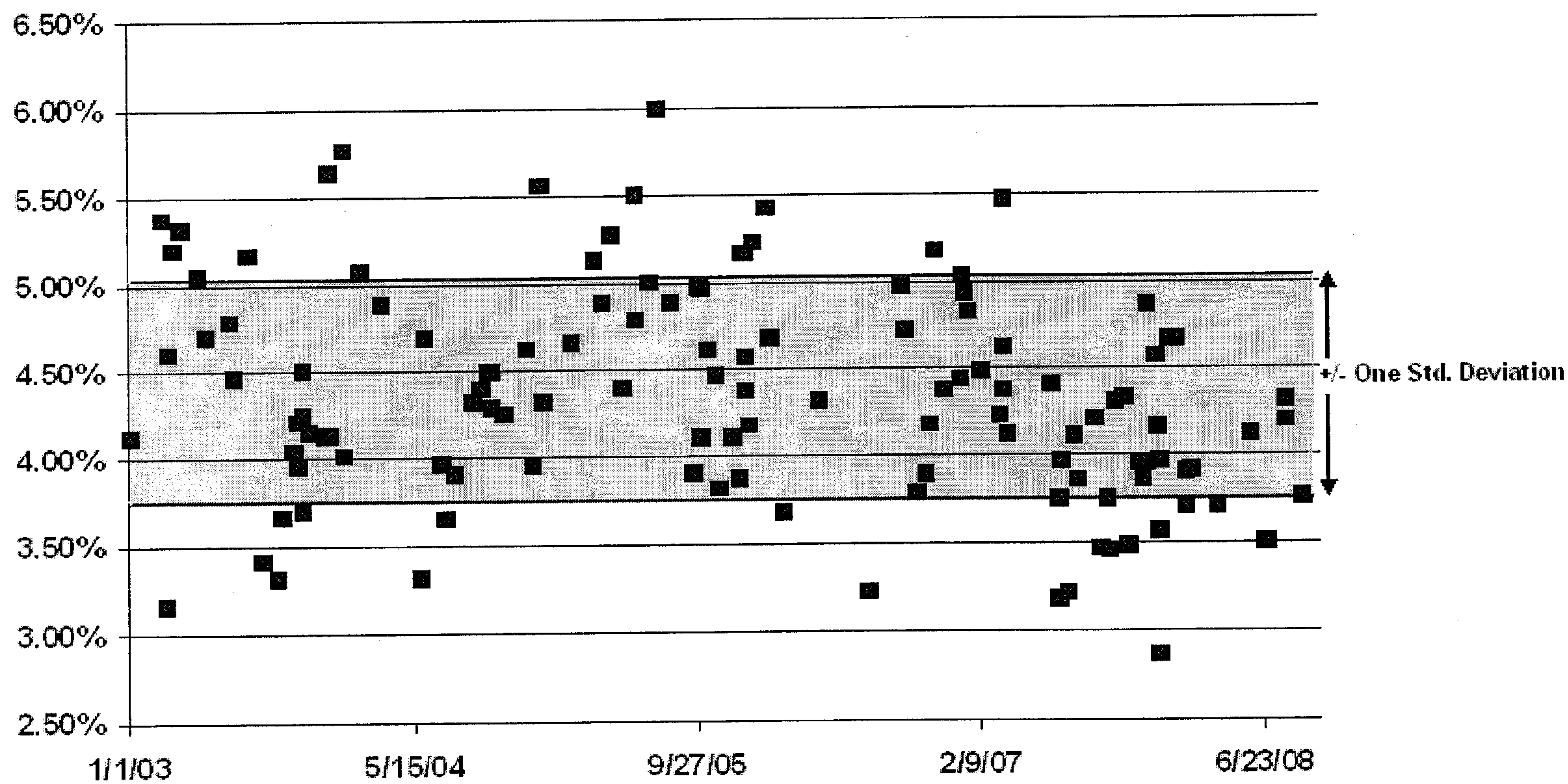
Note: Trend line shown derived from least-squares linear regression.
Source: SNL Financial.

EXHIBIT

KCG-11

Exhibit KCG - 11

UNS Gas, Inc.
Allowed ROE Risk Premium over Avg. Public Utility Bond Yield



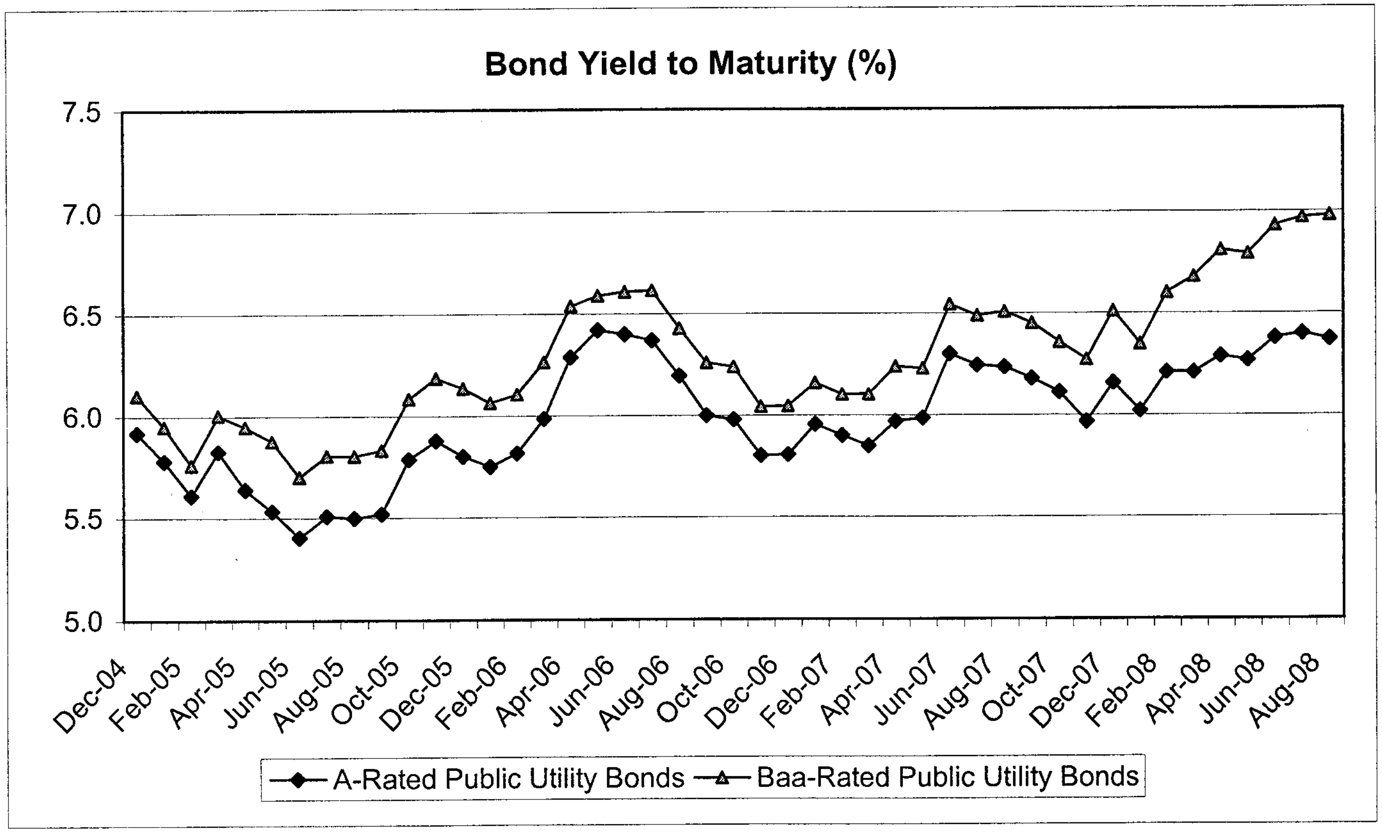
Sources: Allowed ROE data is from SNL Financial. Public Utility bond yields are from Mergent Bond Record.

EXHIBIT

KCG-12

Exhibit KCG-12

UNS Gas, Inc.
Public Utility Bond Yields for A-Rated and Baa-Rated Utilities



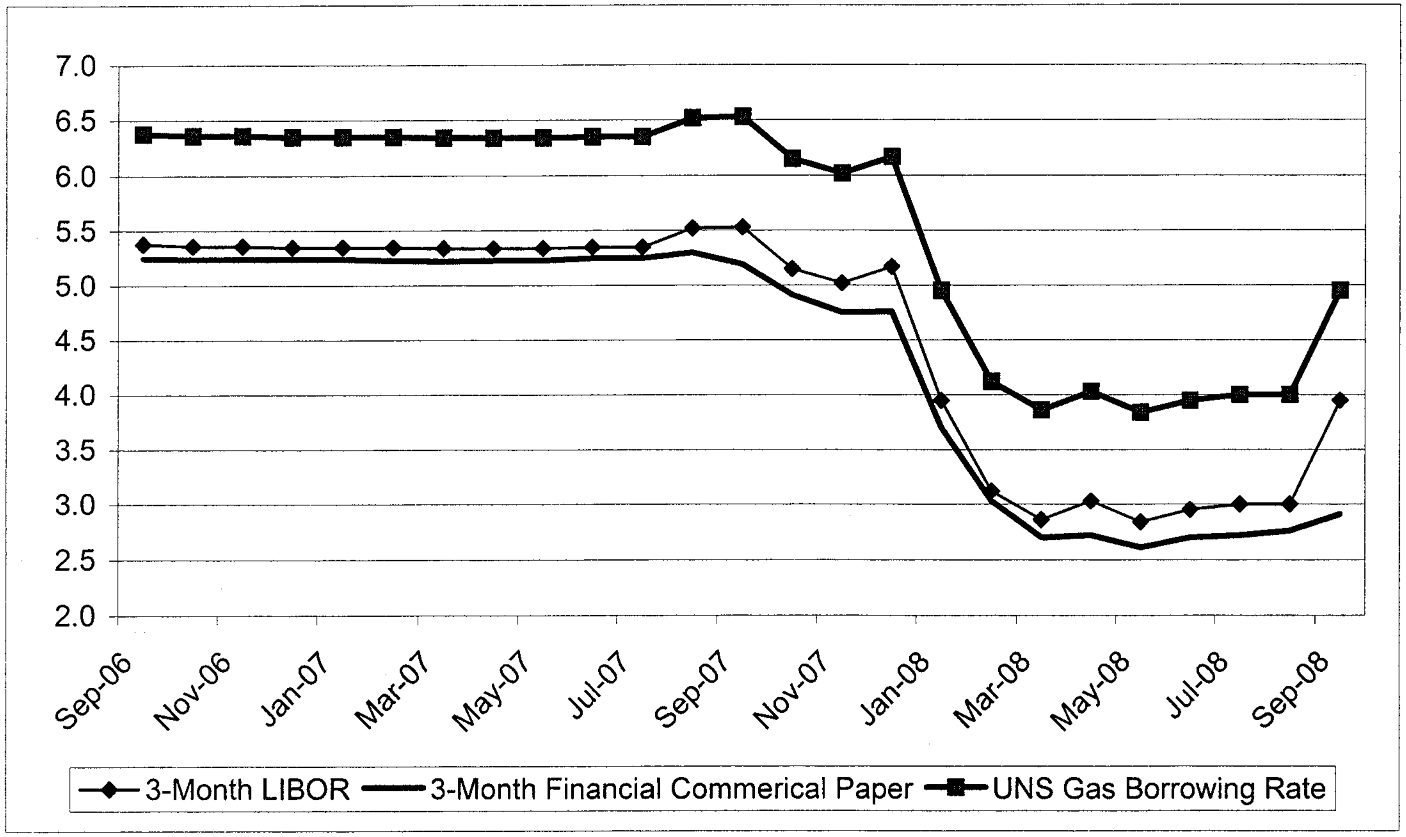
Source: Public Utility bond yields are from Mergent Bond Record

EXHIBIT

KCG-13

Exhibit KCG-13

UNS Gas, Inc.
Short-Term Interest Rates (%)



Source: LIBOR and Financial Commercial Paper yields are from the Federal Reserve Board of Governors Web site (www.federalreserve.gov).

Direct Testimony of Dallas J.Dukes

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABL E RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	))))))))	DOCKET NO. G-04204A-08-____

Direct Testimony of

Dallas J. Dukes

on Behalf of

UNS Gas, Inc.

November 7, 2008

TABLE OF CONTENTS

I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is Dallas J. Dukes and my business address is One South Church Ave., Tucson, Arizona, 85702.

Q. By whom are you employed and what are your duties and responsibilities?

A. I am the Manager of Rates and Revenue Requirements for Tucson Electric Power Company ("TEP" or the "Company"). As Manager of Rates and Revenue Requirements, I am responsible for monitoring and determining revenue requirements, customer pricing and rates structures for all the regulated subsidiaries of UniSource Energy Corporation ("UniSource Energy"), including UNS Gas, Inc. ("UNS Gas" or the "Company").

Q. Please describe your background and work experience.

A. I hold a Bachelors of Science degree in Accounting from Indiana University. I am also a Certified Public Accountant. I have over seventeen years experience as an accountant within the utility industry. Before assuming my current position, I was employed as the Director of Accounting for TEP.

Prior to working for TEP, I was employed by Citizens Gas & Coke Utility ("Citizens Gas"), for approximately five years. Citizens Gas serves approximately 265,000 customers in the Indianapolis, Indiana area. The majority of my time at Citizens Gas was spent as the Controller.

Before then, I was the Controller and Director of Regulatory Affairs for Fountaintown Natural Gas Company, and Southeastern Indiana Natural Gas Company. Prior to that, I was employed by the Indiana Office of Utility Consumer Counselor ("OUCC") for approximately seven years. The majority of my time at the OUCC was spent as a Principal Accountant. My primary duties at the OUCC were to perform professional investigative audits and to represent the public's interest as an expert witness in proceedings before the Indiana Utility Regulatory Commission.

Q. Could you please summarize your Direct Testimony?

A. I am supporting the Company's request for a rate increase by sponsoring Schedules A-1, A-2, and A-5, Schedules B-1, B-2, B-3, B-4 and B-5, and the pro forma accounting adjustments on Schedule B listed below:

(i) Acquisition Discount;

(ii) Griffith Power Plant Facilities ("Griffith Plant");

(iii) Build-Out Plant Write-Down;

(iv) Golden Valley Pipeline;

(v) Post Test Year Non-Revenue Producing Plant;

(vi) Customer Advances Adjustment

(vii) Working Capital.

I am also sponsoring Schedules C-1, C-2 and C-3, and the pro forma accounting adjustments reflected on Schedules C listed below:

(viii) Griffith Plant Operations;

(ix) Golden Valley Pipeline Operations;

(x) Purchased Gas Cost and Gas Cost Revenue;

(xi) Negotiated Sales Program ("NSP") Revenue and Gas Cost;

(xii) Payroll Expense;

(xiii) Payroll Tax Expense;

(xiv) Pensions and Benefits;

(xv) Incentive Compensation;

(xvi) Rate Case Expense;

(xvii) Bad Debt Expense;

(xviii) Miscellaneous Expenses;

(xix) Normalize Outside Legal Expense;

(xx) CARES Expense;

(xxi) CARES Regulatory Asset Amortization; and

(xxii) Y2K Amortization;

(xxiii) DSM Revenue & Expense.

Q. Please describe the information contained in summary Schedule A-1?

A. Schedule A-1 provides a summary of the increase in revenue requirement that UNS Gas is seeking through a rate increase in this case. Lines 1 through 8 of Schedule A-1 present the data utilized in determining the Company's revenue requirement. The data is presented pursuant to three valuation methodologies: (1) original cost; (2) reconstruction cost new less depreciation ("RCND"); and (3) fair value. Fair value is determined by adding together the original cost and RCND rate base amounts and dividing that total by two. This gives equal weight to both methods when determining the fair value amount. This method of determining the fair value is consistent with prior Commission practice.

The test-year that the Company utilized for this rate case is the twelve months ending June 30, 2008. As set forth in Schedule A-1, the original cost rate base is $182 million and the RCND rate base is $329 million. Under standard Arizona Corporation Commission ("Commission") practice, the fair value rate base is considered to be $256 million.

Schedule A-1 supports a finding that UNS Gas presently has an operating income deficiency of $5.8 million and is requesting an increase in revenues of $9.5 million. This results in an average 6% increase to a customer's total bill compared to test year revenues, inclusive of gas costs. The effect on the fixed monthly and delivery charges on an average customer's bill will be an increase in those components of approximately 19% compared to test year revenues, <u>excluding</u> gas cost recovery. However, this 19% increase is only associated with a portion of the customer's total bill. Therefore, assuming the remaining portion of a customer's bill, the gas cost, is equivalent to test year levels, the customer will see an average overall increase of approximately 6% to his total bill. Lines 11 through 18 of Schedule A-1 present how the revenue increase would be allocated among UNS Gas' customers by class.

II. PRO FORMA ADJUSTMENTS.

Q. Please explain the consideration of pro forma adjustments in the rate case process.

A. Public utility rates are based on the reasonable and prudently incurred costs of providing safe, reliable service. The revenue requirement underlying rates is developed on the basis of a test-year that reflects a level of operating revenues and expenses and net plant investment that is representative of normal conditions that are expected to exist during the time that resulting rates may be in effect. The revenue requirement calculation also contains a component that is intended to afford the utility a reasonable opportunity to achieve a fair rate of return, as authorized by the respective regulatory authority.

Pro forma adjustments are made to recorded test-year amounts that are not required for the provision of service or that are not representative of the levels expected to occur during the period in which the new rates will be in effect. Such adjustments may be made in the form of eliminations, annualizations, or normalizations.

Elimination adjustments are made to remove out-of-period or non-recurring transactions, or items that are not costs or revenues related to the provision of utility service; thus, not eligible for reflection in revenue requirements.

Annualization adjustments are made to reflect the full, twelve-month revenue or expense level of certain components of operating income. They are typically computed using end-of-test-year quantities and the most current known and measurable prices and rates. Examples in this case include restating test-year operating revenues to reflect customer levels at the end of the test-year, adjusting payroll expense to reflect current salary rates and changes in employee levels during the test-year, and adjusting recorded depreciation expense to reflect the full effect of plant additions and retirements during the test-year.

Normalization adjustments reflect that the recorded test-year operating revenues and expenses may not be representative of a normal level for ratemaking purposes. Certain events may have affected recorded transactions in an atypical manner. Moreover, some transactions eligible for reflection in revenue requirements are incurred at intervals less frequently than annually, provide benefits extending beyond a single year, or reoccur in significantly different amounts each year. As a result, the amounts recorded in the test-year may not be viewed as "normal," thus requiring a restatement for ratemaking purposes. Normalization adjustments are made in such instances when a test-year level of revenues or expenses is not representative of what would be expected on an on-going basis. Examples in this case include the adjustment for bad debt expense, the overtime factor implicit in the payroll adjustment, and the adjustment to normalize the level of outside legal expense.

Q. Were the pro forma adjustments that you are sponsoring in your Direct Testimony prepared by you or under your supervision?

A. Yes, they were.

III. RATE BASE ADUSTMENTS.

i. Acquisition Discount.

Q. Please explain the Acquisition Discount adjustment.

A. Effective August 11, 2003, UniSource Energy acquired from Citizens Communications Company ("Citizens") its remaining gas assets located in Arizona. The Commission approved this acquisition in Decision No. 66028 (July 3, 2003) pursuant to a Settlement Agreement. This adjustment is necessary in order to properly reflect the discount, or negative acquisition premium, authorized by the Commission when UniSource Energy acquired Citizens. Decision No. 66028 calls for the use of a $30.7 million "negative acquisition premium" (see page 8, lines 17 through 22 of the Decision) in the calculation of rate base for ratemaking purposes to reflect this lower purchase price.

Q. Is an acquisition adjustment normally appropriate?

A. No. Normally original cost rate base is just that "original cost" and under Commission rules, the original cost of utility property is the cost "at the time it is first devoted to pubic service."[1] In the case of an asset sale, the assets will have been devoted to service before the sale. Thus, the sale does not affect the original cost of the assets, either positively or negatively. In other words the relevant cost is the "cost of [the] property to the person first devoting it to public service."[2] Thus, an acquisition adjustment is normally not appropriate. However, UniSource Energy did agree to the specific negative acquisition

[1] Arizona Administrative Code ("AAC") R14-2-102.A.6
[2] A.A.C. R14-2-103.A.3.e

adjustment noted above (*i.e.* the acquisition discount adjustment). This pro forma adjustment is necessary so that the acquisition adjustment is limited for ratemaking purposes to the specific value agreed to by the Company and approved by the Commission.

Q. Please explain further.

A. UniSource Energy actually paid $50.1 million less than the original cost for the gas assets acquired from Citizens. In accordance with United States Generally Accepted Accounting Principles ("GAAP"), this amount had to be shown on the Company's books as a negative acquisition adjustment. This GAAP acquisition discount is larger than the acquisition discount approved by the Commission as described above. Normally, an acquisition discount would not be considered for ratemaking purposes at all. However, in this case, the discount agreed to by the Company must be recognized. Essentially, this pro forma adjustment takes the GAAP discount and reduces it to the value of the discount authorized by the Commission. Put another way, the GAAP discount must be reduced for ratemaking purposes, which increases rate base.

Q. Please explain the accounting details further.

A. When I say the "value" of the agreed upon discount, I mean the $30.7 million figure stated in the 2003 Settlement Agreement, less amortization. The amortization has been calculated through June 30, 2008. Amortization reflects the fact that the assets which were purchased do not have an infinite life. Pursuant to the Settlement Agreement approved by the Commission, the amortization rate is the same as the depreciation rate for corresponding plant accounts. According to Commission and the Federal Energy Regulatory Commission ("FERC") directives, the acquisition adjustment was a credit to accumulated depreciation.

Q. Is the Acquisition Discount adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-463?

A. Yes. The adjustment was prepared and calculated in the same manner as was approved by the Commission in the last UNS Gas rate case order, Decision No. 70011 (November 27, 2007) (hereinafter sometimes referred to as "the last UNS Gas Rate Order").

ii. <u>Griffith Plant.</u>

Q. Please explain the Griffith Plant adjustment.

A. This adjustment removes from Plant in Service the cost of facilities that connect the Griffith Plant with the El Paso Natural Gas and Transwestern Pipeline Company interstate pipelines. Such facilities were constructed by and are owned by UNS Gas. The Griffith Plant costs are recovered pursuant to a specific contract between UNS Gas and the owners of the Griffith Plant. The facilities, revenue and expenses relating to the Griffith Plant are excluded from rate base and revenue requirements for the purposes of general retail ratemaking.

Q. Is the Griffith Plant adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-0463?

A. Yes. The adjustment was prepared and calculated in the same manner as was approved by the Commission in the last UNS Gas Rate Order.

iii. <u>Build-Out Plant Write-Down.</u>

Q. Please explain the Build Out Plant Write-Down adjustment.

A. In Decision No. 66028, the Commission approved a Settlement Agreement which included "an additional $10 million permanent disallowance to gas rate base … to recognize excessive costs associated with Citizens' Build-Out Program." (See page 8, lines 21-22 of the Decision.) This adjustment takes the required adjustment to December 31, 2001 rate base and separates that adjustment into components for gross plant in service and accumulated depreciation. Then the adjustment also quantifies additional depreciation provided through June 30, 2008, – removing the respective plant and accumulated depreciation from rate base.

Q. Is the Build Out Plant Write-Down adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-0463?

A. Yes. The adjustment was prepared and calculated in the same manner as was approved by the Commission in the last UNS Gas Rate Order.

iv. Golden Valley Pipeline.

Q. Please explain the Golden Valley Pipeline ("GVP") adjustment.

A. This adjustment removes from Plant in Service the majority of the cost of the GVP facilities that connect the Black Mountain Generating Station ("BMGS") with the Transwestern Pipeline Company interstate pipeline. Such facilities were constructed by and are owned by UNS Gas. The majority of the GVP costs are recovered pursuant to a specific contract between UNS Gas and the owner of the BMGS.[3] This portion of the facilities, revenue and expenses relating to the GVP, in accordance with the agreements approved in Decision No. 70186, (February 27, 2008), are excluded from rate base and revenue requirements for the purposes of general retail ratemaking.

[3] The BMGS is currently owned by UniSource Energy Development Company ("UED"), a subsidiary of UniSource Energy.

Q. What amount of the facilities, revenue and expenses related to GVP is being included in rate base and revenue requirements?

A. Per the agreement between the owner of BMGS and UNS Gas, approximately **REDACTED%** of the costs are being recovered from the owner of BMGS and thus only **REDACTED%** is being included in rate base and revenue requirements in this proceeding. This amount is being included for capacity made available to serve UNS Gas retail customers in the area of the pipeline.

Q. Are there retail customers currently being served by the GVP?

A. Yes. The Kingman prison is currently being served by the distribution line and is providing for partial recovery of the annual estimated cost of the GVP included in rate base, and thus the Company's proposed revenue requirements. It is also expected that the prison will essentially double its consumption in the 1st quarter of 2010 with the completion of its expansion. In addition there is a factory that is expected to connect to the distribution line within the next few months.

Q. Are there provisions in the contract that allow for the allocation of cost to be recovered from UED to be re-evaluated and adjusted?

A. Yes. The contract includes a provision that in five years from the date of the agreement, the allocation will be re-evaluated. Any cost not being recovered from new retail customers taking service from the GVP distribution line will be re-allocated to the owner of the BMGS. Essentially, if the new customers do not hook-up, then those cost will be recovered from the owner of BMGS for the remainder of the contract and the retail customers of UNS Gas will be held harmless.

v. <u>Post Test Year Non-Revenue Producing Plant.</u>

Q. Please explain the Post Test Year Non-Revenue Producing Plant adjustment.

A. This adjustment is being made to aid the Company in having a more reasonable opportunity to earn its authorized return by accelerating the recovery of investments made prior to the end of the test year into plant that will not produce additional revenues beyond the test year adjusted amount. These investments were not in service by the end of the test year, but will be in service when rates established in this case go into effect. These are investments in items like transportation equipment, general plant, replacements and relocations of existing facilities.

Q. Is the Company advocating that the Commission should allow the recovery of and on plant investment expended by the end of the test year, but not in service?

A. Yes. The Commission should allow UNS Gas to recover such costs. The Company has made investments to serve existing customers and will not see any additional revenue directly related to these investments until the time the investments are reflected in rate base within a rate proceeding. The inclusion of post test year non-revenue producing plant in rate base will help the Company to begin recovering its investment and an opportunity at earning a reasonable return in a more equitable time frame. If this current case follows an expected course, new rates will go into effect in December 2009 at the earliest. Based upon the circumstances of this matter in which Staff required at least six months of actual rates billed within the test year - a new rate case could not be filed until October of 2010, with rates most likely not effective until January 2012. So the recovery of and on investments actually made prior to the end of the test year, but not technically in service, will not produce additional revenues until January 2012, in other words, over 3 ½ years after the investments were made to serve existing customers.

vi. Customer Advances Adjustment.

Q. Please explain the Customer Advances Adjustment.

A. This adjustment is made to more accurately and properly reflect the actual circumstances of the Company for the amount of customer contributed capital available as of the end of the test-year. At the end of the test-year, UNS Gas had customer advances totaling $11.8 million, and of those advances, $0.6 million had already been "spent" on projects not in service as of the end of the test year. The Company is proposing that the test-year reduction to rate base for advances be reduced by the $0.6 million for the amount of advances already spent on projects not included in rate base and thus no longer available to the Company as zero cost customer contributed capital. Because those specific projects are not reflected in rate base as of the end of the test-year, the Company is being denied the return on and return of investments it actually has made in plant in service as of the end of the test year based on a false general assumption that customer advances as of the end of the test year are directly related to plant in rate base and/or represent zero cost capital available to the Company. And because (i) those projects are not reflected in rate base and (ii) and the contributed capital for those investments is no longer available to the Company, the Company's opportunity to earn a reasonable return is reduced by such treatment.

vii. Working Capital.

Q. What is Working Capital?

A. Working Capital is generally viewed as investor funding in excess of the balance of net utility plant reflected in rate base that is required for the provision of utility service.

Q. What are the items of Working Capital for which the Company requests a return?

A. The components of Working Capital that the Company is requesting be included in rate base are:

(i) Materials and Supplies;

(ii) Prepayments; and

(iii) Cash Working Capital.

As more fully explained later in my Direct Testimony, the amounts requested for rate base inclusion for the materials and supplies and prepayments are based on test-year recorded balances, adjusted to reflect normal levels. The cash working capital component was determined by the use of the Lead-Lag Study Methodology, to be covered in-depth later herein.

Q. What is Cash Working Capital?

A. The receipt of customer revenues for the provision of service, and the disbursement of cash for the payment of the various costs of providing service rarely occur simultaneously. This is the fundamental consideration underlying the concept of Cash Working Capital. Cash Working Capital is generally viewed as the component of working capital that represents the amount of invested cash required to pay day-to-day operating expenses incurred in rendering service to customers. It may either increase or decrease rate base. If the computation of Cash Working Capital produces a positive result, it is indicative that there is an additional investment for which a return is warranted, and thus, the amount is added to rate base. If the computation produces a negative result, there is an implicit non-investor funding of Cash Working Capital, requiring a rate base deduction.

Q. Please explain the Working Capital adjustment.

A. The Working Capital adjustment was computed in two pieces. First, as indicated on page 2 of Schedule B-5, the recorded end-of-test-year balances for Materials and Supplies, and Prepayments are adjusted to reflect the 13-month average monthly balances, in recognition of the variability in the monthly balances of the accounts. This is consistent with the treatment of such accounts in prior rate cases.

Second, Working Capital is adjusted for the reflection in rate base of a measure of Cash Working Capital, developed through the preparation of a comprehensive lead-lag study.

Q. What is a lead-lag study?

A. A lead-lag study is a detailed analysis of the dynamic movement of funds throughout the organization, between the receivable and payable balance sheet accounts and related revenues and expenses that are reflected in the operating income component of revenue requirements. The method is generally viewed as the most accurate measure of Cash Working Capital. The Commission has stated a clear preference for the use of lead-lag studies in support of requested working capital amounts in rate cases.

The focal point of all lead-lag studies is the "point of service." That is the instant in time at which customers receive service and, coincident therewith, the utility incurs the cost of providing that service. A lead-lag study measures the average length of time between the provision of service and the ultimate receipt of payment from the customer ("revenue lag"). The result is compared with the average length of time between the point at which the utility incurs a cost of providing that service and the date upon which it makes the related cash disbursement ("payment lead" if payment precedes the cost benefit, or "payment lag" if the payment occurs after the cost benefit). Cash Working Capital reflects the effect on costs of service of the difference between the revenue lag and payment leads or lags.

As may be seen on page 3 of Schedule B-5, a lead-lag study computes the Cash Working Capital associated with each component of cost of service. The revenue lag is constant for all cost categories. The various major expenses are analyzed separately for purposes of developing a specific payment lead or lag. Once the applicable expense lead or lag is known, it is compared with the revenue lag to determine the net lead or lag for that study category. After dividing the net lead or lag by 365 days to arrive at an annual percentage factor, the result is multiplied by the corresponding adjusted test-year expense amount to quantify the Cash Working Capital requirement associated with that cost of service item. Consistent with past Commission policy, the effect of non-cash expenses such as depreciation and deferred income taxes are reflected in the study at a zero requirement.

Q. How was the average revenue lag computed?

A. The revenue lag is comprised of three distinct parts: the service lag, the billing lag, and the customer payment lag.

The service lag is measured from the midpoint of the period of service to the end of the period, the date upon which meters are read. A key underlying assumption is that service is taken uniformly throughout the period. With each customer being billed under twelve monthly billing cycles during the year, the average service lag is computed as 15.21 days [365 days / (12 X 2)].

The billing lag is typically measured from the meter read date to the date customer bills are prepared and balances entered into accounts receivable. The billing lag was computed based on actual meter read dates and bill mailing schedules used by UNS Gas during the test-year.

The customer payment lag is measured from the point at which the customer bill enters accounts receivable to the date that either a payment is received or the account is written off as uncollectible. That lag was determined by computing the average accounts receivable turnover for six months during the test-year. The accounts receivable turnover measures the average time during which a balance remains in accounts receivable and is computed by dividing the sum of the daily ending balances of accounts receivable by the sum of revenues billed and charged to accounts receivable during the study month.

Q. How were the payment leads and lags computed?

A. The payment leads and lags were developed based on analyses of actual payment history, contractual and statutory payment dates, and samples of expenditures.

Q. What was the overall result of the lead-lag study?

A. The study showed that there was negative cash working capital and a corresponding decrease was made as a pro forma adjustment to rate base.

<u>CARES Regulatory Asset.</u>

Q. Please explain the CARES Regulatory Asset.

A. There is no specific adjustment on Schedule B for a CARES regulatory asset; the amount is within the test year opening balance. In Decision No. 70011, the Commission ordered that UNS Gas cease the deferral of costs related to the CARES program upon approval of the new rates established in that Decision. However, the Decision did not address the recovery of deferred CARES costs already incurred by UNS Gas and not yet recovered.

Prior to the Commission's order to cease deferral accounting, the actual discounts given to customers and other allowable CARES program costs were deferred. This leaves only the portion actually recovered in existing rates recognized as an expense. This left the difference between the amount spent and the amount being recovered on the balance sheet as a regulatory asset. In that particular case, the deferred CARES cost included in rate base as a regulatory asset was $107,477 as of December 31, 2005.

The balance of those deferred CARES program costs (as of the elimination of the deferred accounting process) is now $492,590, as of June 30, 2008. The Company is requesting the recovery of these costs incurred for the CARES program, deferred per Commission Decision No. 59875 (October 31, 1996) and reaffirmed in subsequent Commission Decisions until Decision No. 70011 ordered the Company to cease the treatment.

IV. OPERATING INCOME ADJUSTMENTS.

viii. Griffith Plant Operations.

Q. Please explain the Griffith Plant Operation's adjustment.

A. This adjustment removes the revenues and expenses associated with serving the Griffith Plant. The Griffith Plant costs are recovered pursuant to a specific contract between UNS Gas and the owners of Griffith Plant. This special contract was approved by the Commission in Decision No. 61835 (July 21, 1999). Pursuant to that Decision, the plant, revenue, and expenses are excluded from rate base and revenue requirements for the purpose of general retail ratemaking.

ix. Golden Valley Pipeline Operations.

Q. Please explain the Golden Valley Pipeline Operation's adjustment.

A. This adjustment removes the revenues and expenses associated with the GVP. The GVP costs are recovered pursuant to a specific contract between UNS Gas and the owners of BMGS. This special contract was approved by the Commission in Decision No. 70186 (February 27, 2008). Pursuant to that Decision, the plant, revenue, and expenses are excluded from rate base and revenue requirements for the purpose of general retail ratemaking.

x. Purchased Gas Cost and Gas Cost Revenue.

Q. Please explain the Purchased Gas Cost and Gas Revenue adjustment.

A. This adjustment removes the base cost of gas charged to the customers, PGA rates charged to the customers and approved surcharges charged to customers during the test-year. This adjustment has zero impact on operating income as there is no profit associated with the recovery of purchased gas expenditures.

xi. Negotiated Sales Program Revenues and Gas Cost.

Q. Please explain the Negotiated Sales Program Adjustment.

A. The Negotiated Sales Program ("NSP") allows the Company to participate in the competitive bidding process of its transportation customers who are seeking to purchase gas supplies for their own use in accordance with a transportation tariff. The Company, in accordance with Decision No. 59399 (November 28, 1995), credits the PGA bank account for 50% of the sales margin, unless the NSP customer is a transportation customer who was a bundled sales customer any time during the most recent three-year period. In that case, the Company credits the PGA bank 100% of the sales margin.

The test-year income statement reflects revenues received and the gas cost incurred to serve NSP customers excluding the sales margin recorded into the PGA bank. The adjustment removes all remaining revenues and purchased gas expense from the sale of natural gas to NSP customers. This is necessary because the remaining sales margin is the portion to be retained by the Company.

Q. Is the Negotiated Sales Program Revenue and Gas Cost adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-0463?

A. Yes. The adjustment was prepared and calculated in the same manner as was approved by the Commission in the last UNS Gas Rate Order.

xii. <u>Payroll Expense.</u>

Q. Please explain the Payroll Expense adjustment.

A. The Payroll Expense adjustment is intended to reflect in operating expenses an annualized level of salaries and wages based on current rates of pay and the number of employees on the UNS Gas payroll at the end of the test-year. That annualized level is then adjusted for the known pay rate increase that will go into effect January 1, 2009 and the estimated pay rate increase that will go into effect January 1, 2010. The pay rate increase as of January 1, 2010, will be known prior to the close of the record in this proceeding and prior to rates going into effect based on a decision in this proceeding. If necessary, the rate can be updated if it varies significantly from the estimate.

Q. Is the Payroll Expense adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-0463?

A. Yes. The adjustment was prepared and calculated in the same manner as was approved by the Commission in the last UNS Gas rate order with the exception of the request for the 2010 pay rate increase. However, that treatment is consistent with the treatment approved in the last two Southwest Gas rate filings, (Decision Nos. 64172 (October 30, 2001) and 68487 (February 23, 2006)), UNS Electric's last rate filing (Decision No. 70360 (May 27, 2008) and the settlement agreement in the current Tucson Electric Powers Company's rate filing.

xiii. Payroll Tax Expense.

Q. Please explain the Payroll Tax Expense adjustment.

A. The Payroll Tax Expense adjustment was computed in a manner similar to, and consistent with, the payroll adjustment. An annualized level of payroll taxes was computed using current payroll tax rates, the same end-of-test-year employee levels and current salary rates that were used in the payroll adjustment.

Q. Is the Payroll Tax Expense adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-0463?

A. Yes. The adjustment was prepared and calculated in the same manner as was approved by the Commission in the last UNS Gas Rate Order.

xiv. **Pension and Benefits.**

Q. Please explain the Pension and Benefits adjustment.

A. The Pension and Benefits adjustment is intended to reflect in operating expenses a level of pension and benefits expense reflecting the end-of-test-year work force, current pension and benefit costs, and a normal level of business activity. The employee benefits covered by this adjustment include pensions, the Company's share of contributions to the employees' 401(k) plan, and current medical costs.

Q. Is the Pension and Benefits adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-0463?

A. Yes. The adjustment was prepared and calculated in the same manner as was approved by the Commission in the last UNS Gas Rate Order.

xv. **Incentive Compensation.**

Q. Please explain the Incentive Compensation adjustment.

A. Incentive compensation is an integral part of the Company's compensation and benefits program. The Company's incentive compensation program is calculated on specific corporate performance, and is designed to award non-union employees for their contributions to the Company. The goals evaluate many facets of the organization, including several customer or core goals, an operational cost containment goal, and a financial performance goal, all of which ultimately benefit UNS Gas' customers. The customer or core goals include measurements of system reliability, customer response time, and safety. The goals of financial performance and operational cost containment ensure employees are focused on the bottom line and encourage employees to manage costs that they can control by gaining efficiencies or by realizing synergies.

These Company wide goals are pushed down to the individual non-bargaining employee level and put into individual performance plans that provide measurable incentives for employees and put a portion of their individual pay at-risk. The amount of dollars available is determined based on Company wide results, but individual payments are determined based on individual accomplishments, thus those that perform at the highest levels can be rewarded accordingly. Payments are made to employees either late in the first quarter or early in the second quarter of the following year.

The adjustment is calculated by taking the average of the incentive compensation expense for the past three years and adjusting the amount reflected in test-year operating expenses to that level. Since the incentive compensation payments are subject to payroll taxes, a portion of the adjustment reflects the incremental effect of payroll taxes thereon.

Q. Does this cash based incentive compensation program result in employee salaries and wages in excessive of market?

A. No. When combined with the employees' base salaries, the total cash compensation is actually below the median of market, based on the most recent benchmark studies.

Q. Is the Incentive Compensation adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-0463?

A. Yes. The adjustment was prepared and calculated in a similar manner as was "partially" approved by the Commission in the last UNS Gas Rate Order.

Q. What do you mean by "partially" approved in the last Rate Order?

A. The cash-based short-term incentive plan expense that was approved in the last rate case was 50% of the pro forma expense amount proposed by the Company. The Commission ruled that the program benefited shareholders and customers equally and therefore the expense should be shared equally.

Q. Do you agree with the Commission's prior decision to reduce the cash based incentive plan of UNS Gas by 50%?

A. No, I do not. The Commission did *not* rule that the costs themselves or the program were imprudent or that they did not benefit the customers of UNS Gas. If the Commission finds that the costs are prudent and that the program benefits customers, it should allow *full* recovery of the cost based on the adjustment proposed by the Company.

xvi. <u>Rate Case Expense.</u>

Q. Please explain the Rate Case Expense adjustment.

A. The Rate Case Expense adjustment addresses the outside costs already incurred, and expected to be incurred, in connection with this rate case. This amount is an estimate of the anticipated final cost and will be updated before this proceeding concludes. The adjustment amortizes the balance to expense over three years. This is the approximate time period between when UNS Gas filed this rate case and when the next rate case will likely occur. The adjustment also reflects the collection of the anticipated remaining balance of rate case expense allowed to be recovered in Decision No. 70011. That remaining balance will also be amortized over the anticipated life of rates in this case.

xvii. <u>Bad Debt Expense.</u>

Q. Please explain the Bad Debt Expense adjustment.

A. Bad Debt Expense is adjusted to a level reflective of final, pro forma weather-normalized, customer-annualized test-year operating revenues, and the average percentage of actual account write-offs experienced during the past three years. This method of calculating bad debt expense is consistent with past Commission accepted practice.

Q. Is the Bad Debt Expense adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-0463?

A. Yes. The adjustment was prepared and calculated in the same manner as was approved by the Commission in the last UNS Gas Rate Order.

xviii. Miscellaneous Expenses.

Q. Please explain the Miscellaneous Expense adjustment.

A. This adjustment removes test-year expenses that should not be included in revenue requirements because they are for out-of-period activity, not reflective of test-year activity and/or should not be recovered from customers. Also included in this adjustment is an increase to test year postage expense to reflect the postage rate increase that went into effect May 12th, 2008.

xix. Normalize Outside Legal Expense.

Q. Please explain the adjustment to Normalize Outside Legal Expense.

A. This adjustment is being made to reflect a three-year average of outside legal costs. Legal costs by their nature are for primarily "individual" non-recurring activities. In this case, the test year activity is actually fairly reflective of a normal and recurring level, prior to adjustment, but the test year contained $310,000 in outside legal costs related to the last UNS Gas rate case filing that were disallowed recovery of and thus written off within the test year. Once that adjustment is made the test year level is only $84,000, which is not reflective of normal and recurring levels. In 2005, 2006 and 2007 the Company spent $488,000, $439,000 and $242,000 respectively, on outside legal costs, excluding UNS Gas rate case activity. That results in a three-year average of $390,000 which is reflective of normal and recurring levels and is consistent with expected spending levels.

Q. Is the Normalization of Outside Legal Expenses adjustment consistent with the last UNS Gas rate case, Docket No. G-04204A-06-0463?

A. Yes. The adjustment was prepared and calculated in the same manner as was approved by the Commission in the last UNS Gas Rate Order.

xx. <u>CARES Expense.</u>

Q. Please explain the CARES Expense adjustment.

A. The CARES Expense adjustment is necessary to remove the activity in the test-year based on the prior deferred accounting treatment. As I discussed earlier, the deferred accounting treatment ceased as of December 1, 2007, along with the implementation of the rates, pursuant to Commission Decision No. 70011. The proper revenue levels for CARES activity are adjusted through the Rate Case Revenue Annualization adjustment, sponsored by Company witness, D. Bentley Erdwurm. To reflect the impact of that event in this rate filing, it is also necessary to remove the test-year CARES amortization expense. By doing these things, the test-year is adjusted to reflect the currently approved CARES accounting treatment to insure that revenue requirements do not include the recovery of discounts to CARES customers as an expense and test-year revenues properly reflect the actual billings to customers net of the CARES discounts.

However, it is necessary to add back to test-year expenses an amount reflective of normal and recurring advertising expenses associated with the program. In the past, these expenses were deferred as incurred and only passed through the income statement based on the recovery rate approved in rates charged to customers. Since that is no longer the method of recovery or accounting, it is proper to reflect it in test-year adjusted expenses.

xxi. <u>CARES Regulatory Asset Amortization.</u>

Q. Please explain the CARES Regulatory Asset Amortization adjustment.

A. The CARES Regulatory Asset Amortization adjustment is necessary to allow the Company to recover costs incurred prior to the change in accounting treatment for the CARES program. The Company is requesting recovery of the deferred costs over the life of the rates to be set in this proceeding, and estimated to be three years.

xxii. <u>Y2K Amortization.</u>

Q. Please explain the Y2K Amortization adjustment.

A. The Y2K Amortization adjustment is to remove the test-year amortization expense for recovery of Y2K costs that will be fully recovered by the time rates set in this proceeding go into effect.

xxiii. <u>Demand-Side Management ("DSM") Revenue & Expense.</u>

Q. Please explain the DSM Revenue & Expense adjustment.

A. This adjustment excludes from test year revenue and expenses the activity directly related to the DSM adjustor mechanism approved in Commission Decision No. 70011 (November 27, 2007).

V. SUMMARY OF SCHEDULES.

i. A Schedules.

Q. Have you described Schedule A-1 earlier in your Direct Testimony?

A. Yes. Again, Schedule A-1 is a summary of the increase in revenue requirement that UNS Gas is seeking as a rate increase in this case.

Q. Please describe the information contained in Schedule A-2.

A. Schedule A-2 presents a summary of the results of operations for the test-year and two prior calendar years, compared with the projected year. Lines 1-16 of Schedule A-2 set forth the summary of operations for the years ending December 31, 2006 and December 31, 2007, and the test-year ending June 30, 2008. Schedule A-2 also presents projected results of operations for the year ending June 30, 2009 under the headings "present rates" and "proposed rates".

Q. Please describe the information contained in Schedule A-5.

A. Schedule A-5 presents statements of changes in financial position for the years ending December 31, 2006 and December 31, 2007, the test-year ending June 30, 2008 and the projected year ending June 30, 2009.

ii. B Schedules.

Q. Please describe the information contained in Schedule B-1.

A. This schedule summarizes the elements of UNS Gas' rate base on both a net recorded original cost and RCND basis as of June 30, 2008, along with the pro forma adjustments to rate base. Rate base is comprised of net utility plant, certain regulatory assets, and working capital, with deductions from rate base for ADIT, customer advances for construction and customer deposits.

Q. What is shown on Schedules B-2, B-3and B-4?

A. Schedule B-2 shows the pro forma adjustments to the original cost rate base. The information presented includes the actual per-books balances at the end of the test-year, pro forma adjustments, and the adjusted balances. Schedule B-3 provides the same detail by functional account classifications as shown in Schedule B-2, except that it is shown on an RCND basis. Schedule B-4 shows the plant in service accounts on an RCN and RCND basis.

Q. Please explain Schedule B-5.

A. This schedule summarizes the various elements of working capital that the Company is requesting for inclusion in rate base in this rate case.

Q. Why are the original costs and RCND costs of working capital the same in Schedule B-5?

A. They are the same because the original costs are at current prices or have been adjusted to current prices, meaning they have not been significantly affected by inflationary factors.

iii. <u>C Schedules.</u>

Q. Please describe the Company's "C" Schedules in its filing.

A. Schedules C-1 through C-3 present the development of the net operating income component of revenue requirements submitted for Commission consideration in this rate case filing.

Q. Please explain Schedule C-1.

A. Schedule C-1 shows the actual Income Statement for the twelve months ending June 30, 2008, the test-year in this case. It also summarizes the effect of the proposed pro forma adjustments to recorded operating revenues and expenses, and the resulting adjusted net operating income.

Q. What is the purpose of Schedule C-2?

A. Schedule C-2 presents the detailed pro forma adjustments that reflect the full annual impact of operating changes, annualizations, normalizations, and other adjustments made to revenues and expenses.

Q. What is the purpose of Schedule C-3?

A. Schedule C-3 contains the development of the Gross Revenue Conversion Factor. That factor is used to convert the computed test-year return deficiency to an equivalent annual revenue increase amount. It effectively recognizes that there will be additional bad debt expense and income taxes associated with any adjustment to annual revenue levels.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

Direct Testimony of Karen G. Kissinger

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	)	DOCKET NO. G-04204A-08-____

Direct Testimony of

Karen G. Kissinger

on Behalf of

UNS Gas, Inc.

November 7, 2008

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I. INTRODUCTION.

Q. Please state your name and address.

A. My name is Karen G. Kissinger and my business address is 4350 East Irvington Road, Tucson, Arizona, 85714.

Q. By whom are you employed and what is your position?

A. I am Vice President, Controller, and Chief Compliance Officer for UniSource Energy Corporation ("UniSource Energy"). I am also Vice President and Controller of UNS Gas, Inc., UniSource Energy's indirect subsidiary ("UNS Gas" or the "Company").

Q. What are your duties and responsibilities as Vice President and Controller?

A. My present functional areas of responsibility include internal and external financial reporting, plant and property accounting, payroll, accounts payable, tax planning and tax compliance reporting, and energy settlements for all UniSource Energy owned utilities. I am also responsible for the UniSource Energy Corporation Compliance Program, which focuses on corporate policies, practices, and procedures that are designed to assure that UniSource Energy is in compliance with laws, regulations, and corporate policies.

Q. Would you please describe your education, background and experience?

A. I received a Bachelor of Arts Degree in Spanish from the University of Virginia in 1977. I received a Master of Business Administration with a Concentration in Accounting from the University of Arizona in 1982. I am a Certified Public Accountant licensed to practice in the State of Arizona. I am a member of the American Institute of Certified Public Accountants and the Arizona State Society of Certified Public Accountants. Before joining Tucson Electric Power Company ("TEP")[1] in 1991, I was employed by

[1] TEP is a subsidiary of UniSource Energy Corporation and an affiliate of UNS Gas, Inc.

Deloitte Haskins & Sells, and its successor by merger, Deloitte & Touche, in the audit department for approximately eight and one-half years. I was designated by Deloitte & Touche as a public utility specialist, and provided audit and consulting services to a client base comprised of both public and cooperative electric utilities. Since 1991, I have been employed by TEP as Vice President and Controller and as UniSource Energy Corporation's Vice President and Controller since the time of its formation. In 2003, I was assigned the additional responsibility of Chief Compliance Officer. I was named the Vice President and Controller of UNS Gas when it was formed in 2003.

Q. What is the purpose of your Direct Testimony in this proceeding?

A. My Direct Testimony supports UNS Gas' rate request in this proceeding. I am the sponsoring witness for the historical accounting and tax data reflected in UNS Gas' rate case Application included in the "E" Schedules – (Financial Statements and Statistical Schedules). I also sponsor the depreciation, property tax and the income tax pro forma adjustments in Schedules B and C.

II. PRO FORMA ADJUSTMENTS.

Q. Please explain the consideration of pro forma adjustments in the rate case process.

A. Public utility rates are based on the reasonable and prudently-incurred costs of providing safe, reliable service. The revenue requirement underlying rates is developed on the basis of a test-year that reflects a level of operating revenues and expenses and net plant investment that is representative of normal conditions that may be expected to exist during the time that resulting rates will be in effect. The revenue requirement calculation also contains a component that is intended to afford the utility a reasonable opportunity to achieve a fair rate of return, as authorized by the respective regulatory authority.

Pro forma adjustments are made to recorded test-year amounts that are not required for the provision of service or that are not representative of the levels expected to occur during the period in which the new rates will be in effect. Such adjustments may be made in the form of eliminations, annualizations, or normalizations.

Elimination adjustments are made to remove out-of-period or non-recurring transactions, or items that are not costs or revenues related to the provision of utility service; thus, not eligible for reflection in revenue requirements.

Annualization adjustments are made to reflect the full, 12-month revenue or expense level of certain components of operating income. Annualization adjustments are typically computed using end-of-test-year quantities and the most current known and measurable prices and rates. Examples in this case include restating test-year operating revenues to reflect customer levels at the end of the test-year, adjusting payroll expense to reflect current salary rates and changes in employee levels during the test-year, and adjusting recorded depreciation expense to reflect the full effect of plant additions and retirements during the test-year.

Normalization adjustments reflect that the recorded test-year operating revenues and expenses may not be representative of a normal level for ratemaking purposes. Certain events may have affected recorded transactions in an atypical manner. Moreover, some transactions eligible for reflection in revenue requirements are incurred at intervals less frequent than annually, provide benefits extending beyond a single year, or reoccur in significantly different amounts each year. As a result, the amounts recorded in the test-year may not be viewed as "normal," thus requiring a restatement for ratemaking purposes. Normalization adjustments are made in such instances when a test-year level of revenues or expenses is not representative of what would be expected on an on-going basis. Examples in this case include the adjustment for bad debt expense and the overtime factor implicit in the payroll adjustment.

Q. Were the pro forma adjustments that you are sponsoring in your testimony prepared by you or under your supervision?

A. Yes, they were.

Q. Have the pro forma adjustments for which you are responsible in this rate filing been computed in accordance with sound ratemaking principles and all applicable rules and policies of the Arizona Corporation Commission ("Commission")?

A. Yes. To the best of my knowledge, all of the adjustments that I am sponsoring have been so calculated.

III. RATE BASE ADJUSTMENT.

A. Accumulated Deferred Income Tax.

Q. Please explain the Accumulated Deferred Income Tax adjustment.

A. The adjustment reduces rate base for the computed balance of Accumulated Deferred Income Taxes ("ADIT"), a source of non-investor capital, based on adjusted test-year rate base and operating results, and the Company's existing income tax ratemaking authority.

Q. What are deferred income taxes?

A. Deferred income taxes represent the tax effect of differences that arise between the time period when revenues and expenses are recognized for financial reporting purposes and when they are considered for income tax return purposes. For public utilities, the largest such difference is that which exists as a result of the use of accelerated methods and shorter lives in computing tax depreciation as compared with the manner in which book depreciation is computed. The process of apportioning income taxes among accounting periods is referred to as "interperiod tax allocation." For this purpose, it is useful to distinguish between "timing differences" and "permanent differences."

Timing differences represent differences between book income before income taxes and taxable income which originate in one or more periods, and reverse or turn around, in one or more subsequent periods. Because of their capital intensity, the difference between book and tax depreciation is typically the largest timing difference affecting public utilities. Expenses that are deducted by utilities currently for tax purposes, but deferred on the books as regulatory assets for future recognition in rates is another example of a timing difference.

Permanent differences exist between book income and taxable income, and do not reverse in subsequent periods. Examples of permanent differences include non-taxable interest income from municipal bonds and non-deductible lobbying expenses.

Deferred income taxes are computed for timing differences, but not for permanent differences. The typical accounting for deferred taxes involves recognition of a deferred income tax provision (expense) on the income statement for the tax effect of the timing differences, with a corresponding entry made to a balance sheet accumulated deferred income tax reserve account. As the timing differences reverse over time, the deferred tax component of income tax expense becomes negative and balance of the reserve account is extinguished.

Q. How do deferred income taxes affect public utility ratemaking?

A. The reflection of deferred income taxes in ratemaking is labeled "normalization". Some regulatory bodies permit utilities to recognize deferred income taxes associated with all book-tax timing differences in ratemaking ("full normalization"), while others only permit the recognition of certain timing differences required by the Internal Revenue Code to be recognized in utility ratemaking ("partial normalization"). To the extent that normalization is permitted in ratemaking, the resulting deferred income taxes are reflected as a component of income tax expense, with the corresponding balance sheet reserve for accumulated deferred taxes deducted from rate base as non-investor capital, reflecting the availability of such amounts for plant investment or operating purposes between the time they are collected from customers and ultimately remitted to taxing authorities.

Q What income tax ratemaking authority has been granted to UNS Gas?

A. Citizens Communications Company ("Citizens") operated various properties throughout the state of Arizona, each having its separate designated service territory, rate schedules and service rules. For gas operations, Citizens operated under separate divisions in northern Arizona and southern Arizona. The Santa Cruz Gas Division, which was based in Santa Cruz County, Arizona, was authorized full normalization in Decision No. 53103 (July 8, 1982). The pro forma income tax expense calculations prepared in connection with the 1996 Citizens Northern Arizona Gas Division rate case, Decision No. 59875 (October 29, 1996), and also those prepared for the Citizens gas rate cases in progress at the time of the asset purchase approved in Decision No. 66028 (July 3, 2003), clearly indicate the use of a full normalization of all books – tax timing differences. For ratemaking purposes, both of the gas plant properties acquired from Citizens have been permitted to provide deferred income taxes in rate making for all timing differences. In Decision No. 66028, the Commission also approved all of the gas divisions being combined into one entity for ratemaking purposes. No changes were made to such income tax authority in Decision No. 70011 (November 27, 2007), UNS Gas' most recent rate order.

Q. How was the tax cost of the gas plant assets determined in connection with computing the ADIT balance deducted from rate base as of the end of the test-year?

A. As I mentioned, in accordance with the Settlement Agreement approved by Decision No. 66028, the two Citizens gas divisions were merged into a single entity, UNS Gas. Upon their acquisition by UniSource Energy, a new tax basis reflecting the actual amounts for the acquired assets was established. For rate making purposes, such tax basis is adjusted to reflect the fixed acquisition discount established by the Commission in Decision No. 66028. Upon acquisition of the assets by UNS Gas from Citizens, all book-tax timing differences arising since that time have been fully normalized by UNS Gas, consistent with the prior rate treatment afforded to the assets when owned by Citizens.

IV. <u>OPERATING INCOME ADJUSTMENTS.</u>

Q. Please explain the Depreciation Expense adjustment.

A. The Depreciation Expense adjustment is computed to reflect in pro forma operating expense an annual depreciation amount based on depreciable plant in service as of the end of the test-year, and book depreciation rates as presented in the Direct Testimony of witness Dr. Ronald E. White and accepted by the Commission in Decision No. 70011. In addition, the calculation of the adjustment properly considers the effects of depreciation associated with vehicles that are charged to clearing accounts or expense categories other than depreciation.

Q. Please explain the Property Tax adjustment.

A. The Property Tax adjustment is intended to reflect in pro forma test-year operating expenses an amount based on final, adjusted plant in service at the end of the test-year, using the 2009 statutory assessment ratio of 22.0%, and the most currently known average property tax rates. To the extent that more current average tax rate information becomes available during the conduct of this rate case, the Company will update that part of the tax adjustment.

Q. Please explain the Income Tax Expense adjustment.

A. The Income Tax Expense adjustment is computed with the intent to reflect in pro forma test-year operating expenses an amount of income taxes based on final adjusted operating revenues, operating expense, and rate base. It is computed in two parts. The first part is pro forma current income tax expense, the tax liability computed as though an actual income tax return was being prepared on final adjusted test-year taxable operating income. For this purpose, it was necessary to identify all operating book-tax differences ("Schedule M items"), both timing and permanent, and then recompute based on adjusted test-year operating revenues and expenses, if necessary. The tax deduction for interest was computed using a synchronization methodology reflecting final adjusted rate base and the weighted cost of debt in the capital structure.

The second part of the income tax calculation is deferred income tax expense. Deferred income taxes are computed on the Schedule M items representing timing differences for which the Company has obtained normalization ratemaking authority from the Commission as previously described in my Direct Testimony.

V. SUMMARY OF "E" SCHEDULES – FINANCIAL STATEMENTS AND STATISTICAL SCHEDULES.

Q. Please explain the Company's "E" Schedules in its filing.

A. These schedules, as is the same for all other sections of this rate case filing, were prepared in accordance with the filing requirements contained in the Arizona Administrative Code ("AAC") R14-2-103. Schedules E-1 through E-9 contain annual financial statements, and key operating statistics and financial data, extracted from the Company's regulatory books of account.

Q. On what basis are the regulatory books of account of UNS Gas maintained?

A. The Company's regulatory books of account are maintained in accordance with the Uniform System of Accounts of the Federal Energy Regulatory Commission ("FERC"), as required by AAC R14-2-312.G.2.

Q. Have there been any significant changes to the Company's accounting policies or principles since the test year in UNS Gas' last rate case?

A. Yes. As a result of adopting FAS 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("FAS 158"), in December 2006, UNS Gas recognized its allocable share of the underfunded status of the defined benefit pension and other postretirement employee benefit (OPEB) plans as a liability. For the pension plan, the underfunded status was measured as the difference between the fair value of the plan's assets and the projected benefit obligation. For the OPEB plan, the underfunded status was measured as the difference between the cumulative amounts recognized in expense to date and the projected accumulated postretirement benefit obligation. The adjustment required to recognize the pension liability on adoption of this statement resulted in recognition of a regulatory asset. UNS Gas recorded its share of the required increase in the OPEB obligation as an adjustment to Accumulated Other Comprehensive Loss as the Commission allows UNS Gas to recover other postretirement costs through rates only as benefit payments are made. FAS 158 impacts the balance sheet only, and has no impact on the UNS Gas income statement.

Q. Have the financial statements been audited?

A. Yes. The calendar years 2007, 2006, 2005, 2004 and 2003 (from inception date) financial statements were audited by the firm of PricewaterhouseCoopers LLP (Independent Certified Public Accountants).

Q. Please describe Schedule E-1.

A. Schedule E-1 contains the comparative balance sheets of UNS Gas for the test-year ending June 30, 2008, and the two prior years ending December 31, 2007, and December 31, 2006.

Q. Please describe Schedule E-2.

A. This schedule sets forth comparative income statements for the test-year ending June 30, 2008, and the two prior years ending December 31, 2007 and December 31, 2006. The income statement for the test-year supports the actual test period income statement shown on Schedules C-1 and C-2.

Q. Please describe Schedule E-3.

A. This schedule presents the comparative statements of cash flows for the test-year ending June 30, 2008 and the two prior calendar years ending December 31, 2007 and December 31, 2006.

Q. Please describe Schedule E-4.

A. This schedule reports the changes that occurred in stockholders' equity (deficit) during the period beginning January 1, 2005 and ending June 30, 2008. Changes occurring each year in the amounts of the various elements of stockholders' equity are reflected.

Q. Please describe Schedule E-5.

A. Page 1 of Schedule E-5 presents a summary of the balances in the various gas utility plant account categories and accumulated depreciation at June 30, 2008 and December 31, 2007, and the net changes therein during the six months ended June 30, 2008, with plant in service presented on a functional basis. Pages 2, 3 and 4 of Schedule E-5 present the same information on a more detailed basis, by individual gas plant account.

Q. Please describe Schedule E-6.

A. Schedule E-6 contains Operating Income Statements for the test-year ending June 30, 2008 and the two prior calendar years ended December 31, 2007 and December 31, 2006. Retail revenues are reported by rate class. Operating Expenses are reported by major category.

Q. Please describe Schedule E-7.

A. This schedule reports key gas operating statistics, in a comparative format, for the test-year ending June 30, 2008 and the two prior calendar years ending December 31, 2007 and December 31, 2006.

Q. Please describe Schedule E-8.

A. This schedule shows the taxes charged to operating expenses by tax type for the test-year ending June 30, 2008 and the two prior calendar years ended December 31, 2007 and December 31, 2006.

Q. Please describe Schedule E-9.

A. This schedule is intended to disclose important facts required for a proper understanding of the financial statements. A summary of the Company's significant accounting policies is set forth in Note 2 of the Notes to Financial Statements in the Company's audited financial statements for the year ended December 2007, included at Schedule E-9.

VI. <u>RECOGNITION OF HOOK-UP FEES AS REVENUE.</u>

Q. Are there any accounting issues that you would like to address that arose out of UNS Gas' last rate case, Docket No. G-04204A-06-0463, Decision No. 70011 ("the last UNS Gas rate case")?

A. Yes. In the last UNS Gas rate case the Company was ordered to "investigate fully the issue of developer contributions and present in its next rate case viable alternatives to the proposal adopted herein, including but not limited to nonrefundable hook-up fees and other measures that would hold harmless existing customers and required greater contributions to ensure that growth pays for itself." [Decision No. 70011, page 85.] One of the issues raised in the Commission's generic hook-up fee docket is whether hook-up fees could be structured in such a manner as to facilitate recording them as current period revenues rather than as contributions in aid of construction ("CIAC"), which are recorded on the balance sheet as a reduction of utility plant, as has been past practice in Arizona.

In the pending Tucson Electric Power Company rate case, I was asked through discovery to inquire whether our auditors had any written opinions on whether hook-up fees could be recorded as revenue upon receipt in GAAP financial statements. Our auditors directed us to a section of their Accounting and Reporting Manual in which they discuss the Security and Exchange Commission's ("SEC's") concerns with recognition of fees up front as revenue when services are performed over a period of time. I have attached this section of their Accounting and Reporting Manual, SEC 4940 Topic 13 Revenue Recognition, as Exhibit KGK-1 to my Direct Testimony here. Based upon this literature, it very well may be difficult to devise a hook-up fee that would satisfy the SEC's revenue recognition requirements so that hook-up fees could be reported as current period income for GAAP financial statement purposes in the year received. At a minimum, we believe that the Company would need a strong accounting order from the Commission, along with tariff and ordering language in the rate order, that are explicit as to the accounting treatment of the fees.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

EXHIBIT

KGK-1

SEC 4940 - Topic 13 Revenue Recognition

f. Nonrefundable up-front fees

Question 1

Facts: Registrants may negotiate arrangements pursuant to which they may receive nonrefundable fees upon entering into arrangements or on certain specified dates. The fees may ostensibly be received for conveyance of a license or other intangible right or for delivery of particular products or services. Various business factors may influence how the registrant and customer structure the payment terms. For example, in exchange for a greater up-front fee for an intangible right, the registrant may be willing to receive lower unit prices for related products to be delivered in the future. In some circumstances, the right, product, or service conveyed in conjunction with the nonrefundable fee has no utility to the purchaser separate and independent of the registrant's performance of the other elements of the arrangement. Therefore, in the absence of the registrant's continuing involvement under the arrangement, the customer would not have paid the fee. Examples of this type of arrangement include the following:

- A registrant sells a lifetime membership in a health club. After paying a nonrefundable "initiation fee," the customer is permitted to use the health club indefinitely, so long as the customer also pays an additional usage fee each month. The monthly usage fees collected from all customers are adequate to cover the operating costs of the health club.

- A registrant in the biotechnology industry agrees to provide research and development activities for a customer for a specified term. The customer needs to use certain technology owned by the registrant for use in the research and development activities. The technology is not sold or licensed separately without the research and development activities. Under the terms of the arrangement, the customer is required to pay a nonrefundable "technology access fee" in addition to periodic payments for research and development activities over the term of the contract.

- A registrant requires a customer to pay a nonrefundable "activation fee" when entering into an arrangement to provide telecommunications services. The terms of the arrangement require the customer to pay a monthly usage fee that is adequate to recover the registrant's operating costs. The costs incurred to activate the telecommunications service are nominal.

- A registrant charges users a fee for non-exclusive access to its web site that contains proprietary databases. The fee allows access to the web site for a one-year period. After the customer is provided with an identification number and trained in the use of the database, there are no incremental costs that will be incurred in serving this customer.

- A registrant charges a fee to users for advertising a product for sale or auction on certain pages of its web site. The company agrees to maintain the listing for a period of time. The cost of maintaining the advertisement on the web site for the stated period is minimal.

- A registrant charges a fee for hosting another company's web site for one year. The arrangement does not involve exclusive use of any of the hosting company's servers or other equipment. Almost all of the projected costs to be incurred will be incurred in the initial loading of information on the host company's internet server and setting up appropriate links and network connections.

Question: Assuming these arrangements qualify as single units of accounting under EITF Issue 00-21(36), when should the revenue relating to nonrefundable, up-front fees in these types of arrangements be recognized?

(36) The staff believes that the vendor activities associated with the up-front fee, even if considered a deliverable to be evaluated under EITF Issue 00-21, will rarely provide value to the customer on a standalone basis.

Interpretive Response: The staff believes that registrants should consider the specific Facts and circumstances to determine the appropriate accounting for nonrefundable, upfront fees. Unless the up-front fee is in exchange for products delivered or services performed that represent the culmination of a separate earnings process, (37) the deferral of revenue is appropriate.

(37) See Concepts Statement 5, footnote 51, for a description of the "earning process."

In the situations described above, the staff does not view the activities completed by the registrants (i.e., selling the membership, signing the contract, enrolling the customer, activating telecommunications services or providing initial set-up services) as discrete earnings events. (38) The terms, conditions, and amounts of these fees typically are negotiated in conjunction with the pricing of all the elements of the arrangement, and the customer would ascribe a significantly lower, and perhaps no, value to elements ostensibly associated with the up-front fee in the absence of the registrant's performance of other contract elements. The fact that the registrants do not sell the initial rights, products, or services separately (i.e., without the registrants' continuing involvement) supports the staff's view. The staff believes that the customers are purchasing the ongoing rights, products, or services being provided through the registrants' continuing involvement. Further, the staff believes that the earnings process is completed by performing under the terms of the arrangements, not simply by originating a revenue generating arrangement.

(38) In a similar situation, lenders may collect nonrefundable loan origination fees in connection with lending activities. The FASB concluded in Statement 91 that loan origination is not a separate revenue-producing activity of a lender, and therefore, those nonrefundable fees collected at the outset of the loan arrangement are not recognized as revenue upon receipt but are deferred and recognized over the life of the loan (paragraphs 5 and 37).

While the incurrence of nominal up-front costs helps make it clear that there is not a separate earnings event in the telecommunications example above, incurrence of substantive costs, such as in the web hosting example above, does not necessarily indicate that there is a separate earnings event. Whether there is a separate earnings event should be evaluated on a case-by-case basis. Some have questioned whether revenue may be recognized in these transactions to the extent of the incremental direct costs incurred in the activation. Because there is no separable deliverable or earnings event, the staff would generally object to that approach, except where it is provided for in the authoritative literature (e.g., Statement 51).

Supply or service transactions may involve the charge of a nonrefundable initial fee with subsequent periodic payments for future products or services. The initial fees may, in substance, be wholly or partly an advance payment for future products or services. In the examples above, the on-going rights or services being provided or products being delivered are essential to the customers receiving the expected benefit of the up-front payment. Therefore, the up-front fee and the continuing performance obligation related to the services to be provided or products to be delivered are assessed as an integrated package. In such circumstances, the staff believes that up-front fees, even if nonrefundable, are earned as the products and/or services are delivered and/or performed over the term of the arrangement or the expected period of performance(39) and generally should be deferred and recognized systematically over the periods that the fees are earned. (40)

(39) The revenue recognition period should extend beyond the initial contractual period if the relationship with the customer is expected to extend beyond the initial term and the customer continues to benefit from the payment of the up-front fee (e.g., if subsequent renewals are priced at a bargain to the initial up-front fee).

(40) A systematic method would be on a straight-line basis, unless evidence suggests that revenue is earned or obligations are fulfilled in a different pattern, in which case that pattern should be followed.

Some propose that revenue should be recognized when the initial set-up is completed in cases where the on-going obligation involves minimal or no cost or effort and should, therefore, be considered perfunctory or inconsequential. However, the staff believes that the substance of each of these transactions indicates that the purchaser is paying for a service that is delivered over time. Therefore, revenue recognition should occur over time, reflecting the provision of service. (41)

(41) Concepts Statement 5, paragraph 84(d).

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-08-

UNS GAS, INC.

APPLICATION

TESTIMONY AND EXHIBITS

VOLUME 2 OF 3

November 7, 2008

Direct Testimony of Gary A. Smith

BEFORE THE ARIZONA CORPORATION COMMISSION

<u>COMMISSIONERS</u>
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
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Direct Testimony of

Gary A. Smith

on Behalf of

UNS Gas, Inc.

November 7, 2008

TABLE OF CONTENTS

I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is Gary A. Smith. My business address is 2901 West Shamrell Blvd., Suite 110 Flagstaff, Arizona 86001.

Q. What is your position with UNS Gas, Inc. ("UNS Gas" or the "Company")?

A. I am employed by UNS Gas as Vice President and General Manager of Gas Operations.

Q. What are your duties and responsibilities?

A. I am responsible for directing the operations of UNS Gas. UNS Gas serves a growing base of customers in Mohave, Yavapai, Coconino, and Navajo Counties in northern Arizona, and Santa Cruz County in southeast Arizona. These counties comprise approximately 50% of the territory of the state of Arizona, with a population of approximately 799,000. My primary duties include oversight of the operations, maintenance, construction, and expansion of UNS Gas' systems. I also have management responsibility for UNS Gas employees.

Q. Please outline your educational background.

A. I have a Masters degree in Information Technology from the University of Phoenix and a Bachelor of Science degree in Civil Engineering from Arizona State University. I also have Associate of Arts degrees in Fire Science from Mesa Community College in Arizona and Emergency Medical Training from Monroe County Community College in Michigan.

Q. Please state your work experience.

A. I have 30 years of public utility experience, including 26 years of senior management experience. I have been with UNS Gas (or the "Company") since August 11, 2003. Prior to that, I worked at Citizens Communications Company ("Citizens") as Vice President and General Manager, Arizona Gas Division for six years. Prior to my position at Citizens, I worked at the Arizona Corporation Commission ("Commission") for 19 years. During my tenure at the Commission, I served as Chief of Safety (1988-1998) and Chief of Pipeline Safety (1983-1988).

Q. What is the purpose of your testimony in this proceeding?

A. I will provide information on (i) UNS Gas' low-income assistance programs, (ii) the Company's proposed changes to its Rules and Regulations, (iii) the benefits of the American Gas Association dues, and (iv) the Commission's request for information concerning developer contributions.

II. <u>LOW-INCOME ASSISTANCE PROGRAMS.</u>

Q. Please describe the current CARES program.

A. Qualifying residential CARES customers are assessed a discounted Minimum Customer charge of $7.00 per month throughout the calendar year. Additionally, CARES customers receive a $0.15 per therm monthly discount on the first 100 therms used during the winter billing months of November through April. The Company promotes the CARES discount program by placement of a bill insert that is received by all residential customers, including, radio and newsprint.

Q. How does a residential customer qualify for CARES discounts?

A. The customer completes a CARES Discount application. These applications are available at the local assistance agencies as well as from the Company. To be eligible for the discount, the customer must have a gas account in their name and a combined household income at or below 150% of the federal poverty level.

Q. Mr. Smith, is UNS Gas proposing to maintain its CARES program?

A. Yes, the Company is proposing to maintain the same basic monthly charge for CARES customers at $7, and the same non-commodity volumetric charge at $0.1770 per therm for the first 100 therms per month in the billing months of November to April. For all therms sold in excess of the initial 100 therms per month, the price is $0.3270 per therm. These charges cover non-commodity costs. The CARES customer charge has not increased since our acquisition of the Citizens system.

Q. Is UNS Gas proposing to expand its low-income assistance programs?

A. Yes. The Company is proposing to hold meetings of interested stakeholders to discuss modifications to the CARES program that could limit increases in gas commodity costs borne by these customers. If consensus can be reached, the Company will file testimony in support of the changes. The Company proposes that the CARES stakeholder group discuss expanding assistance beyond the 150% of poverty threshold applicable to CARES. Mr. Erdwurm provides greater detail on these topics in his testimony.

Q. Do CARES program participants enjoy any other benefits?

A. Yes, CARES customers may also be eligible for assistance through our Warm Spirits Program and our Low-Income Weatherization Program. Ms. Denise Smith's Direct Testimony provides more detail on the Weatherization Program.

Q. Is the Company proposing any changes to its Warm Spirits Program?

A. The Company is proposing one change to its Warm Spirits Program. UNS Gas currently offers two options for contributing to the Warm Spirits Program; customers can either (i) pledge a fixed amount which is added to their monthly utility bill, or (ii) make a random contribution by entering the contribution amount on their bill payment coupon and include the contribution amount when paying their monthly bill.[1] UNS GAS proposes to add a 'round-up' option for customers. Customers signing up for the 'round-up' option would see their monthly bill rounded up to the next even dollar. The difference between their billed amount for actual usage and the next even dollar would be their contribution to the Warm Spirits Program. In addition, the Company will continue to match aggregate customer contributions up to $25,000 annually.

There have also been changes to the way UNS Gas is administering the program. UNS Gas is working with the Arizona Community Action Association ("ACAA") to assist in distributing the contributions. The total amount of Warm Spirit Contributions is dispersed to the ACAA on a quarterly basis. As an independent agency, the ACAA identifies the eligible assistance agencies, determines which agencies should receive funding, and ultimately disperses the specific amounts to be given to individual agencies. The ACAA then distributes those funds to the respective assistance agencies within the same community from which the contributions were received. This process ensures that UNS Gas customers' contributions remain in the community to help their less fortunate neighbors.

Q. How does the Warm Spirits program assist low-income customers?

A. As previously mentioned, the assistance agencies receiving the Warm Spirits funds determine how the funds are distributed to our customers. These agencies provide the necessary funds to avoid non-pay disconnection of service and will also assist customers by providing the required funds for connection or re-connection of service.

[1] UNS Gas had already complied with the requirement from Decision No. 70011 before the Decision was approved.

III. RULES AND REGULATIONS.

Q. Is UNS Gas proposing changes to its Rules and Regulations?

A. Commission Decision No. 70011 (November 27, 2007) approved substantial changes to UNS Gas' Rules and Regulations. In this Application, UNS Gas is proposing a few substantive updates to some of these Rules and Regulations, as well as other tariffs, and is seeking Commission approval of these changes.

Q. Please describe the proposed changes in this rate case.

A. UNS Gas is proposing only a few substantive changes to its Rules and Regulations at this time. I will discuss the following changes in greater detail later in my testimony:

- Section 2 – Add definitions for "Elderly", "Excess Flow Valve", "Service Transfer", "Special Call Out" and "Trip Charge". Delete the definitions of "Senior Citizen" and "Working Hours". Clarify the definition of "Service Reconnection Charge";
- Section 3 - Clarify the applicability of service establishment, reestablishment and reconnection charges, as well as the charges for service transfers and multiple attempts to connect;
- Section 6 - Increase the charge for service line establishments from $16.00 per foot to $22.50 per foot. For those customers who perform the trenching work, the charge for service line establishments will increase from $12.00 per foot to $16.50 per foot;
- Section 8 - Delete the "Table of Atmospheric Pressure Bases" by geographical zone descriptions in favor of a more simplified version that shows the atmospheric pressure bases within specific elevation ranges; and
- Section 17 - Add the Statement of Additional Charges to the end of the Rules and Regulations.

Q. Why is the Company proposing changes in Section 2, "Definitions"?

A. The definitions for "Service Transfer", "Special Call Out" and "Trip Charge" were necessary because of the addition of the Statement of Additional Charges and the need to explain those charges. An "Excel Flow Valve" definition was added. Language was also added to the "Service Reconnection Charge" definition to clarify the charges that would be incurred if this charge was applied. The definition of "Working Hours" was deleted because it is not used in the document. The definition of "Senior Citizen" was replaced by the definition of "Elderly".

Q. What is the basis for proposing the change to the table of atmospheric pressure bases?

A. As reflected in Commission Decision No. 68113 (September 9, 2005), the Rules and Regulations were updated to provide more detailed information regarding the conversion of one hundred cubic feet (volume of gas) to therms (energy content) used for customer billing purposes. This update included a table of atmospheric pressure bases related to each town and their respective elevation bands. Listing these elevation bands by geographical zones is redundant; the appropriate atmospheric pressure to apply is determined by the elevation band. Thus, the town is irrelevant; the determining factor to ascertain the appropriate atmospheric pressure to apply is the elevation band. Since the point of elevation at which a customer's service is provided is used to ascertain the applicable atmospheric pressure, the table was streamlined to better highlight this determinant.

Q. Why add the Statement of Additional Charges to the Rules and Regulations?

A. UNS Gas believes that having these charges listed in one, easy-to-find location within the Rules and Regulations, as opposed to a separate Company Pricing Plan, will make it easier for its customers and future customers to ascertain which charges may apply to them.

These charges were in Pricing Plan MISC-1 before, which only listed them but gave no explanation for the charges. By adding the Statement of Additional Charges to the Rules and Regulations, the Company and the Customer have the explanation for the charges as well as the charges themselves listed in one place.

Q. Please describe the proposed charges listed in Section 17 of the Statement of Additional Charges.

A. UNS Gas is proposing the following fees, which have increased due to the rising costs for these particular services:

• Service Transfer	$20.00
• Collection Fee	$20.00
• Customer-Requested Meter Reread	$20.00
• Multiple Attempts to Connect	$20.00
• Service Establishment, Re-establishment or Reconnection	
During Regular Business Hours	$35.00
After Normal Business Hours (same day request scheduled)	$50.00
• Special Call Out (Minimum one (1) hour)	
After Normal Business Hours - per hour	$70.00
• Customer Requested Meter Test	$90.00
• Late Payment Finance Charge	1.5%
• Interest on Customer Deposits	One-year Treasury Constant Maturities rate

Additionally, UNS Gas is proposing to reduce the NSF check charge from $15.00 to $10.00.

Q. Is a copy of the proposed modifications to the Rules and Regulations attached?

A. Yes, both clean and redlined copies of the revised Rules and Regulations are attached as Exhibits GAS-1(a) and GAS-1(b), respectively, to my Direct Testimony.

Q. Is UNS Gas proposing to make any changes to Pricing Plan T-1 Transportation of Customer-Secured Natural Gas ("Pricing Plan T-1") and Pricing Plan T-2 Transportation Service Using Dedicated Transmission Facilities ("Pricing Plan T-2")?

A. Yes. The T-1 and T-2 Pricing Plans apply to certain large commercial customers. Currently "Balancing", found under the section heading "Operating Procedures" in both Pricing Plan T-1 and Pricing Plan T-2, states:

> Customers are provided a monthly operating window, under which the Customer's cumulative imbalances must be within plus or minus 5 percent (+/- 5%) of the month's total of daily scheduled transportation quantities, plus any Company-approved imbalance adjustment quantity, or 10,000 therms, whichever is greater.

UNS Gas is proposing to change the 10,000 therm threshold to 1,500 therms. The 5 percent (5%) allowance is not being changed. The redlined versions of Pricing Plan T-1 and T-2 are attached as Exhibit GAS-3 and Exhibit GAS-4, respectively to my Direct Testimony.

Q. Why are you making this change?

A. Currently UNS Gas' monthly imbalance cash out threshold under the El Paso Natural Gas ("EPNG") tariff is only 2,000 decatherms (Dth) or 20,000 therms. Allowing each transportation customer a monthly threshold that is one-half of the monthly threshold that UNS Gas must adhere to for its entire system under EPNG can place additional operational constraints and/or penalties on UNS Gas. UNS Gas currently has eight (8) transportation customers that are managed by third party suppliers who are responsible for managing those customers' monthly imbalances. Reducing the monthly threshold to 1,500 therms is a more reasonable volume. This change in the language also makes UNS Gas' monthly operating window consistent with the monthly operating window allowed by other gas distribution utilities in the state.

Q. Is the Company proposing any changes to monthly residential customer charges?

A. Yes, the Company is proposing a phased-in increase in residential customer charges to levels more reflective of the true customer-related costs. During Phase 1 of the implementation, residential customer charges will increase from the current $8.50 per month to $10.00, when new rates become effective. One year after new rates become effective, Phase 2 will increase the residential customer charge to $12.00 per month, and one year after Phase 2 implementation, Phase 3 will increase the residential customer charge to $14.00 per month. Mr. Erdwurm's Direct Testimony provides more detail on this proposal.

IV. AMERICAN GAS ASSOCIATION ("AGA") BENEFITS.

Q. Does the Company use a cost/benefit analysis in determining the value of AGA's services?

A. Yes. In 2006, the AGA's programs, services and advocacy efforts provided its members with $479 million in outright savings or avoided costs. The AGA collected under $18 million in membership dues which resulted in more than a $27 return on every $1 in paid AGA dues.

Q. Is UNS Gas requesting recovery for the AGA's marketing and lobbying activities?

A. No. In accordance with previous Commission decisions, UNS Gas is not requesting recovery of the dues associated with marketing and lobbying activities.

Q. What amount of AGA dues is the Company requesting recovery of?

A. UNS Gas is requesting the recovery of $45,964 related to AGA dues. As detailed below, the information and services UNS Gas received from the AGA far exceeds this cost.

Q. Would you please describe some of AGA's activities and how these activities benefit, either directly or indirectly, a member company's customers?

A. Yes. AGA conducts hundreds of operating and engineering activities to improve the safety, efficiency and productivity of member companies' engineering and operating functions. Some recent examples of AGA's operating and engineering activities include:

(1) Over all, the safety records of natural gas utilities are outstanding and they continue to improve. To encourage greater improvement in the safety of the natural gas delivery system, AGA hosted a Safety Leadership Summit in late 2007 for its members to come together and discuss the state of the natural gas industry in four critical areas of safety:

- Employee Safety;
- Utility Contractor Safety;
- Pipeline Safety; and
- Public Safety.

(2) AGA publishes the Gas Piping Technology Committee ("GPTC") Guide periodically. This GPTC Guide is prepared by safety experts from gas distribution and transmission companies, federal and state regulatory agencies, manufacturers and industry consultants and is updated when new materials and procedures are approved for use. UNS Gas uses the GPTC Guide to design and select piping material types. This Guide has saved UNS Gas time and some of the expense of designing and developing its systems, and insures standardization.

(3) The Operating and Engineering Committee helped initiate a campaign to increase awareness among contractors and excavators about the damage that can be done to buried pipeline mains as a result of their activities. AGA is a supporting sponsor of this National Program known as the "Common Ground Alliance." Two out of three reportable incidents on these mains are a result of third-party excavators. Most incidents occurred because the utility was not notified that work was about to be done or given the opportunity to mark the gas line. As a result of this effort, AGA has helped to raise public awareness of the importance of damage prevention programs and has provided a forum for states to better address this issue. UNSG continues to work to improve communication with excavators and reduce these incidents which are costly in terms of injuries and repair expenses, and which, for the most part, are avoidable.

(4) The AGA has taken the lead in developing easy-to-use personal computer software to deal with a variety of operating and/or engineering issues faced by gas companies. The cost of these programs to member companies is minimal in relation to costs saved, specifically development and labor costs. So far, software programs have been developed in the following areas:

- Gas Measurement - performs orifice flow and super compressibility calculations; and
- Gas Properties – Calculates natural gas speed of sound, critical flow coefficient and other thermodynamic properties.

(5) The AGA updates "Report No. 3, Orifice Metering of Natural Gas." This Report is a standard reference in gas contracts. Improved measurement accuracy increases UNS Gas' efficiency and UNS Gas' ability to pass any savings on to its customers.

(6) The AGA's Plastic Materials Committee evaluates the use of plastic materials and new fabrication techniques for gas piping systems. This Committee publishes the AGA Plastic Pipe Manual for Gas Services, which includes the latest information on plastic materials, piping components and design, as well as installation procedures covered under Federal and State regulatory codes and standards for natural gas distribution piping systems. Through the use of this information, member companies can more quickly, confidently and safely increase the use of more cost-effective plastic materials.

(7) The AGA Best Practices Program for Gas Distribution is an effort to identify procedures of superior performing gas industry companies and innovative work practices that can be used to improve participants' operations. The program focuses on improving the safety and efficiency of gas distribution system construction, maintenance, operation and inspection. Information is made available regarding a number of operational improvements in areas such as street repairs, safer trenchless technology and automated dispatching. Members have documented millions of dollars in savings from participation in this program, which in turn translates to lower costs for the customer.

(8) The Operating and Engineering Committee has developed a large number of manuals and textbooks that are essential in the day-to-day operation of gas utilities. An excellent example is the Gas Engineering and Operating Practices Services. This 11-book series has become the authoritative work on gas utility engineering. AGA manuals are incorporated by reference in the Commission's Pipeline Safety Regulations (at A.A.C. R14-5-202.R., for example).

(9) The AGA's Operating Section continues to provide support to its members who seek industry information on a variety of operations and engineering issues. The SOS Program is a resource for AGA members who have the need to query others on a particular subject. The SOS program is a simple and effective way for members to better understand how others are addressing a particular issue/challenge. Recent SOS requests include member-initiated surveys on the following topics:

- Oversight of, and quality checks on, contractors that perform locating services;
- Security metrics;
- Excavation and backfill practices around transmission lines;
- Third party damage claims;
- Gas odorization practices;
- Budget practices used for forecasting operations & maintenance workload;
- Elevated delivery pressure; and
- Right of Way acquisition.

These are just a few of the many operating and engineering-related projects that benefit a member company and its customers. While all of these benefits cannot necessarily be quantified in specific dollar amounts, it is clear that AGA activities provide significant benefits to customers in terms of improving the reliability and safety of UNS Gas' distribution system.

Q. Do you represent UNS Gas on any of the many AGA Committees?

A. Yes. I am a member of the AGA Operations and Engineering Committee. This group focuses on five areas:

- Safety, Security & Environment;
- Distribution and Transmission Engineering, Construction & Maintenance;

- Supply Management-Supplemental Gas;
- Gas Measurement; and
- Inside Building Operations.

I am the Primary Sponsor for AGA's Building Energy Codes and Standards Committee, a sub-committee within the Operations & Engineering Section.

V. GROWTH, INCREMENTAL COSTS FOR NEW SERVICE AND MAIN LINES, AND HOOK-UP FEES.

Q. Why are you providing a discussion regarding growth and hook-up fees?

A. In Commission Decision No. 70011 (November 27, 2007), the Commission directed UNS Gas to investigate the issue of developer contributions and to present alternatives that would hold harmless existing customers while requiring greater contributions from developers to ensure that costs associated with new customer growth would be borne by those new customers.

Q. Did UNS Gas explore the hook-up fee issue, as contemplated in Decision No. 70011?

A. Yes. UNS Gas participated in a Commission workshop regarding hook-up fees on October 18, 2007. At the conclusion of that workshop, the parties were asked to provide written comments by November 1, 2007 regarding the various issues that were raised and questions that were posed. UNS Gas, as well as Tucson Electric Power Company ("TEP") and UNS Electric, Inc. ("UNS Electric") (hereinafter referred to collectively as "the Companies"), filed collective comments on the issues and questions raised by the Commission; a copy of those comments is attached as Exhibit GAS-2. In general, the Companies believe that properly-crafted line extension policies and the Incremental Cost Study ("ICS"), coupled with rates that are based on relevant costs of service, will ensure that new customers pay an appropriate amount of cost through some combination of contributions-in-aid-of-construction ("CIAC"), customer advances and rates.

Q. Are hook-up fees the most effective method to ensure that growth pays for growth?

A. No, UNS Gas does not believe that hook-up fees will ensure that growth pays for itself. Hook-up fees could potentially lead customers to choose other resource alternatives, such as electricity or propane, over natural gas. To the extent that hook-up fees will require customers to bear a greater up-front investment than under current practices, customers may be forced to choose where to invest their limited cash. A customer may invest (pay any hook-up fee and other connection costs) in just one energy source; there simply may be nothing left for secondary sources like natural gas. In general, customers continue to choose natural gas where available because the per therm cost of propane is significantly higher than the cost of natural gas. However, the larger the up-front fee for natural gas, the greater the chance that customers will not invest in natural gas as a second energy source. To avoid the up-front fee for natural gas, customers may choose propane, even though some home-buyers in towns and cities with gas distribution systems (at least in some areas) may consider propane an inferior alternative. The up-front cost to install propane would be low compared to the cost to install natural gas service if natural gas hook-up fees are mandated.

Higher up-front costs to install natural gas also may result in reduced gas system growth and a reduction in customer choice and energy diversity in Arizona. In the past, the Commission Staff has promoted fuel diversity because of the relative efficiency of gas water heaters, clothes dryers and other end-uses, and because of the environmental advantages of burning natural gas as compared to solid fuels such as coal. Moreover, future customers without energy choices may be more exposed to price swings in the electric market. Long-term increased use of electricity can put pressure on existing electric distribution and regional transmission systems which may increase the cost of electric delivery. Clearly, customers benefit from having more choices.

Q. How do hook-up fees violate the tradition of system-wide rates in cases where the fees move beyond costs that are directly assignable to new customers?

A. One can argue that additional expenditures for supporting facilities that will serve all or most customers, such as the new backbone distribution serving all customers or the bulk of customers, should not be recovered disproportionately from new customers through hook-up fees. For example, the need to upgrade a distribution system serving an area from a 2-inch to a 6-inch line, or to connect radial systems to form a looped system, is driven by increased total load (attributable to both new and old customers) and a desire to ensure reliable delivery of natural gas to all customers in that region, particularly under extreme conditions. Investments of this nature generally cannot be tied to any single customer, although they may be tied to a region or district. In the absence of regionally established tariffs, the Company recovers these costs as part of its standard sales rates. Traditionally, all customers within a class pay the same prices, and there is no penalty for being a "new" customer. An existing customer, after all, could choose to leave the system instead, thus freeing up resources and deferring the backbone distribution improvements. Prospective incremental costs can be reduced either when a potential new customer chooses not to move in, or when an existing customer chooses to leave. An existing customer should not be entitled to preferential treatment in the allocation of costs based on when the customer connected to the system.

Q. Please describe in more detail the recovery of distribution costs, and explain why the current methodology is an appropriate way to ensure that new customers pay a proper share of costs.

A. There are different methods of assigning and recovering costs incurred for capital investments in UNS Gas' system.

First, UNS Gas recovers the cost of all new service lines providing natural gas directly to customer homes or places of business through the execution of a Line Extension Agreement. This Agreement requires that the customer pay a fixed per-foot amount for service lines installed on the customer's property, as well as any additional actual incurred costs such as relocation of landscaping. This approved per-foot amount, as part of the Company's Rules and Regulations in Section 6, includes the cost of construction, supervision, planning, and transportation so that the new customer bears all costs associated with the service installation. The Company proposes in this rate proceeding to increase the per-foot amount to recover recent increases in materials cost, as well as labor costs.

Second, UNS Gas has eliminated all 'free footage' in service line installations in an effort to better link cost recovery to cost causation.

Third, UNS Gas' request directly recovers the costs incurred for: (i) locating any private property buried facilities (e.g., lawn sprinklers) for every new installation; and (ii) installing the mandatory Excess Flow Valves ("EFV").

Finally, UNS Gas applies the Commission-approved ICS methodology (A.A.C. R14-2-307.C) to assign costs for facilities upstream of new customer premises where the cost can be exclusively assigned to new customers. Generally this applies to the backbone distribution system exclusively serving new customers where the cost of facilities serving a unique development of homes can be isolated to the particular developer or builder. Under this methodology, UNS Gas determines its maximum allowable investment, pursuant to the ICS, that will support UNS Gas' authorized rate of return, assuming that additional "common" backbone distribution costs (i.e., serving all customers) are not considered. The ICS approach requires the customer (usually the developer or builder) to contribute the amount of all actual construction costs in excess of this allowable investment. As actual customers connect to the new backbone, the initial developer may receive a partial refund. However, after five years, any refunds cease.

UNS Gas establishes an ICS for each unique district based on the average expected margin revenue within that district. Under this methodology, the builder, developer or new customer bears an appropriate share of cost, given the location of the new load.

Q. Please provide more detail on the costs that UNS Gas collects from new customers through the Line Extension Tariff.

A. The costs to install the customer service line from the private property line (street curb) though the private property to the building wall are reviewed and updated on an on-going basis and are incorporated into the Line Extension section of UNS Gas' Rules and Regulations. UNS Gas is proposing a cost increase of $6.50 per foot (from $16.00 to $22.50, if the trench is provided by UNS Gas), or a cost increase of $4.50 per foot (from $12.00 to $16.50, if the trench is provided by the customer) to each new service line, and additional charges that are part of providing the new customer with gas service. The total customer contribution as proposed by UNS Gas based on an average service length of 46 feet would be $1,035.00. Under this methodology each customer contributes an amount highly correlated to the actual cost of that service installation.

Q. What level of capital investment has UNS Gas made since the Citizen's acquisition and what does this investment represent in terms of facilities that serve your customers?

A. Since the acquisition of the Citizens properties, UNS Gas has invested approximately $107 million in assets associated with providing safe, reliable service to its customers. Approximately 16% of this investment was for general plant, and 8% was for plant related to public improvement activity. Historically, the Company has collected around $1.3 million annually from new customers in the form of contributions. UNS Gas' proposed changes in the line extension guidelines are expected to increase that amount to approximately $3.5 million annually, assuming the average addition of 3,500 customers each year. This equates to approximately 86% of the cost for new service installation being collected in the form of a contribution.

Q. How does the Incremental Cost Study accomplish the goal of growth paying for growth if the new customer does not pay for the entire length of the new main distribution line?

A. The Company believes its proposed rates, in conjunction with the ICS, will recover a more socially optimal amount from new customers. UNS Gas periodically analyzes customer usage patterns and anticipated usage by revenue area to derive the contribution estimates for average customers in the specific trend areas. State and Federal taxes, property taxes, composite assessments, and depreciation rates are also included, based on the most recent approved factors for these items from UNS Gas' last general rate case. The resulting rate of return ("ROR") on "incremental" rate base is compared to the most recent Commission-authorized ROR to determine the economic feasibility of the extension. UNS Gas generally takes a refundable advance equal to the initial investment in the gas facilities dedicated exclusively to serve the new customers. If the new line extension does not ultimately add the needed level of customers (sales) to provide a return at least equal to the

Commission-authorized ROR, a CIAC is then deducted from the advance in the amount necessary to assure that existing customers are essentially held harmless based on the initial assumptions used in the study.

Q. Please summarize UNS Gas' position on proposing a hook-up fee.

A. UNS Gas believes that it has adopted a fair and reasonable balance with the use of a Line Extension tariff with updated costs (thus requiring new customers to pay the specific costs to serve their premise) and by using, and continually reviewing and monitoring, the ICS process to insure that developments produce a return equivalent to the ROR built into current rates or contribute towards the investment until that return is met.

Q. How has the Company complied with the Commission's directive to investigate the issue of developer contributions and to present alternatives?

A. The Company has provided multiple cost recovery mechanisms that insure the potential for new customers and growth of the system to adversely impact existing customers is mitigated and/or even eliminated.

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

EXHIBIT

GAS-1A

CLEAN VERSION

TABLE OF CONTENTS

SECTION NO. 1
APPLICABILITY OF RULES AND REGULATIONS AND DESCRIPTION OF SERVICE

A. Company is a gas utility operating within portions of the state of Arizona. The Company will provide service to any person, institution or business located within its service area in accordance with the provisions of its Pricing Plans and the terms and conditions of these Rules and Regulations.

B. All gas delivered to any Customer is for the sole use of such Customer on that Customer's premises only. Gas delivered by the Company shall not be redelivered or resold, or the use thereof by others permitted unless otherwise expressly agreed to in writing by the Company. However, those Customers purchasing gas for redistribution to the Customer's own tenants (only on the Customer's premises) may separately meter each tenant distribution point for the purpose of prorating the Customer's actual purchase price of gas delivered among the various tenants on a per unit basis.

C. These Rules and Regulations shall apply to all gas service furnished by the Company to its Customers.

D. These Rules and Regulations are part of the Company's Pricing Plans on file with and duly approved by, the Arizona Corporation Commission. These Rules and Regulations shall remain in effect until modified, amended, or deleted by order of the ACC. No employee, agent or representative of the Company is authorized to modify the Company rules.

E. These Rules and Regulations shall be applied uniformly to all similarly situated Customers.

F. In case of any conflict between these Rules and Regulations and the ACC's rules, these Rules and Regulations shall apply.

G. Whenever the Company and an Applicant or a Customer are unable to agree on the terms and conditions under which such Applicant or Customer is to be served, or are unable to agree on the proper interpretation of the these Rules and Regulations, either party may request assistance from the Consumer Services Section of the Utilities Division of the ACC. The Applicant or Customer also has the option to file an application with the ACC for a proper order, after notice and hearing.

H. The Company's supplying gas service to the Customer and the acceptance thereof by the Customer shall be deemed to constitute an agreement by and between the Company and the Customer for delivery, acceptance of and payment for gas service under the Company's Rules and Regulations and applicable Pricing Plans.

SECTION NO. 2
DEFINITIONS

A. In these Rules and Regulations, the following definitions shall apply unless the context requires otherwise:

1. "Advance in Aid of Construction" or "Advance" – Funds provided to the Company by an Applicant under the terms of a main extension agreement, the value of which may be refundable.

2. "Applicant" – A person requesting the Company to supply gas service.

3. "Application" – A request to the Company for gas service, as distinguished from any inquiry as to the availability or charges for such service.

4. "Arizona Corporation Commission" ("ACC") – The regulatory body established by Article XV of the Arizona Constitution.

5. "Billing Month" – The time interval between any two (2) regular readings of the Company's meters at approximately thirty (30) day intervals.

6. "Billing Period" – The time period between two (2) consecutive meter readings that are taken for billing purposes.

7. "British Thermal Unit" ("BTU") – The amount of heat required to raise the temperature of one (1) pound of water one (1) degree Fahrenheit, at Standard Conditions.

8. "CCF" – One hundred (100) cubic feet.

9. "CFH" – Cubic feet per hour.

10. "Commodity Charge" – The unit cost for billed usage as set forth in the Company's Pricing Plans.

11. "Company" – UNS Gas, Inc.

12. "Contributions in Aid of Construction" or "Contribution" – Funds provided to the Company by the Applicant under the terms of a main extension agreement and/or service connection tariff, the value of which are not refundable.

SECTION NO. 2
DEFINITIONS
(continued)

13. "Cubic Foot" –

    a. In cases where gas is supplied and metered to Customers at Standard Delivery Pressure, a cubic foot of gas is the volume of gas, which at the temperature and pressure existing in the meter occupies one (1) cubic foot.

    b. Regardless of the pressure supplied to the Customer, the volume of gas metered will be converted to the volume which the gas would occupy at Standard Conditions.

    c. The standard cubic foot of gas used for testing the gas for heating value shall be that volume of gas which, when saturated with water vapor and at a temperature of sixty (60) degrees Fahrenheit and under a pressure equivalent to that of thirty (30) inches of mercury (mercury at thirty-two (32) degrees Fahrenheit and under standard gravity), occupies one (1) cubic foot.

14. "Curtailment Priority" – The order in which gas service is to be curtailed to various classifications of Customers, as set forth in the Company's Pricing Plans.

15. "Customer" – The person in whose name service is rendered, as evidenced by the signature on the application or contract for that service, or by the receipt and/or payment of bills regularly issued in the person's name regardless of the identity of the actual user of the service.

16. "Customer Charge" – The amount the Customer must pay the Company for the availability of gas service, excluding any gas used, as specified, in the Company's Pricing Plans.

17. "Customer Service Complaint" - Written complaint received from a Customer, or through the ACC on behalf of a Customer.

18. "Day" – Calendar day.

19. "Decatherm" – Ten (10) therms or one million (1,000,000) BTUs.

20. "Distribution Main" – A gas line of the Company from which service lines may be extended to Customers.

21. "Elderly" – A person who is sixty-two (62) years of age or older.

22. "Excess Flow Valve" ("EFV") – A device that is designed to restrict the flow of gas in a single family residence natural gas service line by automatically closing in the event that it is broken downstream of the EFV, completely cut, torn apart or otherwise separated, usually caused by some type of excavation or digging activity.

SECTION NO. 2
DEFINITIONS
(continued)

23. "Handicapped" – A person with a physical or mental condition which substantially contributes to the person's inability to manage his or her own resources, carry out activities of daily living, or protect themselves from neglect or hazardous situations without assistance from others.

24. "Illness" – A medical ailment or sickness for which a residential Customer obtains a verifiable document from a licensed medical physician stating the nature of the illness and that discontinuance of service would be especially dangerous to the Customer's health.

25. "Inability to Pay" – Circumstances where a residential Customer:

    a. Is not gainfully employed and is unable to pay; or

    b. Qualifies for government welfare assistance, but has not begun to receive assistance on the date that the bill is received and can obtain verification from the government welfare agency; or

    c. Has an annual income below the published federal poverty level and can produce evidence of this; and

    d. Signs a declaration verifying that the Customer meets one of the above criteria and is either elderly, handicapped, or suffers from an illness.

26. "Incremental Contribution Study" ("ICS") – The study described in Section 7.B.4 of these Rules and Regulations.

27. "Interruptible Gas Service" – Gas service that is subject to interruption or curtailment as specified in the Company's Pricing Plans.

28. "Law" – Any rule or requirement established and enforced by government authorities.

29. "Main Extension" – The lines and equipment necessary to extend the existing gas distribution system to provide service to additional Customers.

30. "Master Meter" – An instrument for measuring or recording the flow of gas at a single location from which said gas is transported through a piping system to tenants or occupants for their individual consumption.

31. "MCF" – One thousand (1,000) cubic feet.

32. "Meter" – The instrument for measuring and indicating or recording the volume of gas that has passed through it.

33. "Meter Set Assembly" ("MSA") – All gas components downstream of the Customer's inlet service valve to the Customer's point of delivery.

SECTION NO. 2
DEFINITIONS
(continued)

34. "Minimum Charge" – The amount the Customer must pay for the availability of gas service and may include an amount of usage, as specified in the Company's Pricing Plans.

35. "Permanent Customer" – A Customer who is a tenant or owner of a service location who applies for and receives gas service.

36. "Permanent Service" – Service which, in the opinion of the Company, is of a permanent and established character. The use of gas may be continuous, intermittent, or seasonal in nature.

37. "Person" – Any individual, partnership, corporation, governmental agency, or other organization operating as a single entity.

38. "Point of Delivery" – The point of delivery for all gas delivered to any Customer shall be at the point of interconnection between the facilities of the Company and those of such Customer.

39. "Premises" – All of the real property and apparatus employed in a single enterprise or residence on an integral parcel of land undivided by public streets, alleys or railways.

40. "Pricing Plan" – A part of the Company's Tariffs which sets forth the rates and charges related to specific categories of Customers, and related terms and conditions.

41. "Residential Subdivision" – Any tract of land which has been divided into four or more contiguous lots for use in the construction of residential buildings or permanent mobile homes for either single or multiple occupancy.

42. "Residential Use" – Service to Customers using gas for domestic purposes such as space heating, air conditioning, water heating, cooking, clothes drying, and other residential uses and includes use in apartment buildings, mobile home parks, and other multi-unit residential buildings.

43. "Restricted Apparatus" – An apparatus prohibited by the ACC, another governmental agency, or the Company.

44. "Rules and Regulations" or "Company Rules" – These Rules and Regulations, which are part of the Company's Tariffs and Pricing Plans.

SECTION NO. 2
DEFINITIONS
(continued)

45. "Service Areas" – The territory in which the Company has been granted a certificate of convenience and necessity and is authorized by the ACC to provide gas service.

46. "Service Establishment Charge" – A charge as specified in the Company's Pricing Plans which covers the cost of establishing a new account.

47. "Service Line" – A gas pipe that transports gas from a common source or supply (normally a distribution main) to the Customer's point of delivery.

48. "Service Reconnection Charge" – A charge specified in the Company's Pricing Plans that must be paid by the Customer prior to re-establishment of gas service each time the gas is disconnected for nonpayment, or for failure to comply with the Company's Pricing Plans. In addition to the Service Reconnection Charge, such returning Customer shall pay the sum of the applicable monthly Customer Charges which would have accrued had the Customer not been disconnected for non-payment or for failure to comply with the Company's Pricing Plans within the preceding twelve (12) month period.

49. "Service Re-establishment Charge" – A charge specified in the Company's Pricing Plans for the re-establishment of service at the same location where the same Customer had ordered a service disconnect within the preceding twelve (12) month period. In addition to the Service Re-establishment Charge, such returning Customer shall pay the sum of the applicable monthly Customer Charges which would have accrued had the Customer not ordered the disconnect.

50. "Service Transfer" – Transfer of service from one Customer to another, when the meter is not turned off.

51. "Single Family Dwelling" – A house, an apartment, or a mobile home permanently affixed to a lot, or any other permanent residential unit which is used as permanent home.

52. "Special Call-Out" – When Company personal is on-call and is called in from home at the request of the Customer in order to provide service.

53. "Standard Conditions" – 14.73 pounds per square inch absolute at sixty (60) degrees Fahrenheit.

54. "Standard Delivery Pressure" – 0.25 pounds per square inch gauge at the meter or point of delivery.

55. "Tampering" – A situation where a meter has been illegally altered. Common examples are meter bypassing and other unauthorized connections. Tampering also includes any action defined as "tampering" under A.R.S. § 40-491(4).

SECTION NO. 2
DEFINITIONS
(continued)

56. "Tariffs" – The documents filed with the ACC that list the services offered by the Company and set forth the terms and conditions and a schedule of the rates and charges for those services and products. These Rules and Regulations are part of the Company's Tariffs. The Company's Pricing Plans are also part of the Company's Tariffs.

57. "Temporary Service" – Service to premises or enterprises that are temporary in character, or where it is known in advance that the service will be of limited duration. Service that, in the opinion of the Company, is for operations of speculative character is also considered temporary service.

58. "Therm" – A unit of heating value, equivalent to one hundred thousand (100,000) BTUs.

59. "Third Party Notice" – A notice sent to a person willing to receive notification of the pending discontinuance of service to a Customer of record, in order to make arrangements on behalf of said Customer that are satisfactory to the Company.

60. "Transmission Line" - A gas line for delivering natural gas that operates at a hoop stress of twenty percent (20%) or more of Specified Minimum Yield Strength ("SMYS"), as defined in CFR 49, Part 192 or that transports gas to a single large volume Customer such as a distribution center, factory, power plant or institutional user.

61. "Trip Charge" – Charges set forth in the Company's Statement of Additional Charges for services such as a Service Transfer, Collection Fee, Customer-Requested Meter Re-read, or Multiple Attempts to Connect.

62. "Unauthorized" – Use of gas services that is not in accordance with ACC rules, the Company's Rules and Regulations, or the Company's Pricing Plans.

63. "Weather Especially Dangerous to Health" – That period of time, commencing with the scheduled termination date, when the local weather forecast as predicted by the National Oceanic and Atmospheric Administration, indicates that the temperature will not exceed thirty-two (32) degrees Fahrenheit for the next day's forecast. The ACC may determine that other weather conditions are especially dangerous to health as the need arises.

64. "Yardline" – A gas pipe that transports gas from the Customer's point of delivery to the point of entry into the Customer's residence or other place of consumption.

SECTION NO. 3
ESTABLISHMENT OF SERVICE

A. Information From Applicants

1. The Company may obtain the following minimum information from each Applicant:

   a. Name or names of Applicant(s);

   b. Service address or location and telephone number;

   c. Billing address or location and telephone number, if different than service address;

   d. Address where service was provided previously;

   e. Date Applicant will be ready for service;

   f. Indication of whether premises have been supplied with gas service previously;

   g. Purpose for which service is to be used;

   h. Indication of whether Applicant is owner or tenant of or agent for, the premises;

   i. Information concerning the gas usage and demand requirements of the Customer; and

   j. Type and kind of life-support equipment, if any, used by the Customer.

2. The Company may require a new Applicant for service to appear at the Company's designated place of business to produce proof of identity and sign the Company's application form.

3. Where service is requested by two or more individuals, the Company shall have the right to collect the full amount owed to the Company from any one of the Applicants.

4. An Applicant for gas service to new construction or a new extension shall complete the following Company form:

   a. New Service Application Form

   The Customer is responsible for completing and returning the Application form. Failure on the part of the Customer to provide a completed form shall be grounds for the Company to delay or refuse service. For the purpose of this Rule, the definition of new construction/extension is where there is a need to run a new service line or install new gas facilities to a property that has never had prior natural gas service.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

B. Deposits

1. The Company may require from any present or prospective Customer a security deposit to guarantee payment of all bills. This deposit may be retained by the Company until service is discontinued and all bills have been paid; except as provided in Subsection B.4 below. Upon proper application by the Customer, the Company shall then return said deposit, together with any unpaid interest accrued thereon from the date of commencement of service or the date of making the deposit, whichever is later. The Company shall be entitled to apply said deposit together with any unpaid interest accrued thereon, to any indebtedness for the same class of service owed to the Company for gas service furnished to the Customer making the deposit. When said deposit has been applied to any such indebtedness, the Customer's gas service may be discontinued until all such indebtedness of the Customer is paid and a like deposit is again made with the Company by the Customer. No interest shall accrue on any deposit after discontinuance of the service to which the deposit relates.

   The Company shall not require a deposit from a new Applicant for residential service if the Applicant is able to meet any of the following requirements:

   a. The Applicant has had service of a comparable nature with the Company at another service location within the past two (2) years and was not delinquent in payment more than twice during the last twelve (12) consecutive months, or was not disconnected for nonpayment; or

   b. The Applicant can produce a letter regarding credit or verification from a gas or electric utility which states that the Applicant has had service of a comparable nature with that utility at another service location within the past two (2) years and was not delinquent in payment more than twice during the last twelve (12) consecutive months, or was not disconnected for nonpayment; or

   c. In lieu of a cash deposit, a new Applicant may provide a Letter of Guarantee from an existing Customer of the Company who is acceptable to the Company, a surety bond, or similar alternative acceptable to the Company, such as a Certificate of Deposit, as security for Company in the sum equal to the required deposit; or

   d. If a credit check is offered by the Company, the Applicant authorizes a credit check and meets the standards established by the Company.

2. The Company may issue a non-assignable, non-negotiable receipt to the Applicant for the deposit. The inability of the Customer to produce such a receipt shall in no way impair the Customer's right to receive a refund of the deposit which is reflected on the Company's records.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

3. Cash deposits held by the Company twelve (12) months or longer shall earn interest at the established one-year Treasury Constant Maturities rate, effective on the first business day of each year, as published in the Federal Reserve website. No interest will be paid on deposits for which Customers have turned service on and off within the same calendar month. Such payment of interest shall be made during January of each year for Customers served by the Company for at least six (6) months and will cover all interest accrued up to the end of the preceding calendar year or on the date the deposit is returned to the Customer, pursuant to Subsection B.4 below. At the Company's option, the above payments may be made either by check or by credit on the monthly bill.

4. All deposits of residential or commercial Customers received and held by the Company shall be returned to the Customer by the Company (with interest, as provided by Subsection B.3 above), at such time as the affected Customers shall have maintained for a period of twelve (12) consecutive months (from and after the date when the deposit was made), their accounts with the Company. The Customer's accounts shall have been maintained in such a manner that they shall not have been delinquent in the payment of more than two (2) bills during such twelve (12) month period, whether at the same address or at a different address, nor have had their gas service, whether at the same address or at a different address, discontinued, in accordance with these Rules and Regulations, for failure to pay for gas service previously rendered.

5. The Company may require a Customer to establish or re-establish a deposit if the Customer became delinquent in the payment of three (3) or more bills within a twelve (12) consecutive month period, or has been disconnected from service during the last twelve (12) months.

6. The Company may review the Customer's usage after service has been connected and adjust the deposit amount based upon the Customer's actual usage. A separate deposit may be required for each meter installed.

7. Residential Customer deposits shall not exceed two (2) times that Customer's estimated average monthly bill. Non-residential Customer deposits shall not exceed two and one-half (2.5) times that Customer's maximum estimated monthly bill. If actual usage history is available, then that usage, adjusted for normal weather, will be the basis for the estimate.

8. The posting of a deposit shall not preclude the Company from terminating service when the termination is due to the Customer's failure to perform any obligation under the agreement for service or any of these Rules and Regulations.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

C. Grounds For Refusal Of Service

The Company may refuse to establish service if any of the following conditions exist:

1. The Applicant has an outstanding amount due for the same class of gas service with the Company and the Applicant is unwilling to make arrangements with the Company for payment; or

2. A condition exists which, in the Company's judgment, is unsafe or hazardous to the Applicant, the general population, or the Company's personnel or facilities; or

3. The Applicant refuses to provide the Company with a deposit when the Customer has failed to meet the credit criteria for waiver of deposit requirements; or

4. Customer is known to be in violation of the Company's Pricing Plans; or

5. Customer fails to furnish such funds, service, equipment, and/or rights-of-way necessary to serve the Customer and which have been specified by the Company as a condition for providing service; or

6. Applicant falsifies his or her identity for the purpose of obtaining service.

D. Service Establishment, Re-establishment or Reconnection Charge

1. For the purpose of this Rule, the definition of service establishment is where the Customer's facilities are ready and acceptable to the Company, the Applicant has obtained all required permits and/or inspections indicating that the Applicant's facilities comply with local construction safety and governmental standards and regulations, and the Company needs only to install a meter, read a meter, or turn the service on.

2. The Company will charge for service establishment, re-establishment, or reconnection other than service transfers under usual operating procedures, during regular business hours as set forth in the Statement of Additional Charges.

3. Should service be established re-established, or reconnected during a period after the Company's regular business hours, at the Customer's request, the Customer will be required to pay an after-hour charge for the service connection as set forth in the Statement of Additional Charges. Where the Company's scheduling will not permit service establishment on the same day as requested, the Customer can elect to pay the after-hour charge for establishment that day, or his service will be established on the next available business day. Even so, a Customer's request to have the Company establish service after-hours is subject to the Company having staff available; there is no guarantee that the Company will have the staffing available for service establishment, re-establishment or reconnection after business hours.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

4. For service re-establishments at the same location where the same Customer has ordered a service disconnect within the preceding twelve (12) month period, such returning Customer, in addition to the service re-establishment charge, shall pay the sum of the applicable monthly Customer Charges that would have accrued had the Customer not ordered the disconnect.

5. For service reconnections when due to the behavior of the Customer (*i.e.*, nonpayment, failure to comply with the Company's Pricing Plans) it has been necessary for the Company to discontinue service utilizing other than usual operating procedures prior to reconnection of gas service each time the gas is disconnected, in addition to the service reconnection charge set forth in the Statement of Additional Charges, the Customer shall pay the sum of the applicable monthly Customer Charges that would have accrued had the Customer not been disconnected within the preceding twelve (12) month period.

6. The Company will charge for the establishment or re-establishment for service transfers only, as set forth in the Statement of Additional Charges.

7. When the Company has made more than one failed attempt to establish service due to the Customer's absence from home, facilities not being ready, or lack of access to the point of delivery, the Customer will be required to pay a multiple attempts to connect charge as set forth in the Statement of Additional Charges, in addition to the service establishment charge.

E. Temporary Service

1. Applicants for temporary service may be required to pay to the Company, in advance of service establishment, the estimated cost of installing and removing the facilities necessary for furnishing the desired service.

2. Where the duration of service is to be less than one (1) month, the Applicant may also be required to advance a sum of money equal to the estimated bill for service.

3. Where the duration of service is to exceed one (1) month, the Applicant may also be required to meet the deposit requirements of the Company, as outlined in Subsection B.1 above.

4. If at any time during the term of the agreement for service the character of a temporary Customer's operations changes so that, in the opinion of the Company, the Customer is classified as permanent, the terms of the Company's main extension rules shall apply.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS

A. Information for Residential Customers

1. The Company shall make available upon Customer request, no later than sixty (60) days from the date of request, a concise summary of the rate schedule applied for by such Customer. The summary shall include the following:

    a. Monthly minimum or Customer charge, identifying the amount of the charge and the specific amount of usage included in the minimum charge, where applicable;

    b. Rate blocks, where applicable; and

    c. Any adjustment factor(s) and method of calculation.

2. Upon application or upon request, the Applicant or the Customer shall elect the applicable Pricing Plan best suited to their requirements. The Company may assist in making such election, but shall not be held responsible for notifying the Customer of the most favorable Pricing Plan and shall not be required to refund the difference in charges under different Pricing Plans.

    However, new non-residential Customers whose projected consumption is near the threshold between "large" and "small" Pricing Plans, may elect the "small" rate, subject to refund, if their usage qualifies them as a "large" Customer. An existing non-residential Customer will be moved to the "large" rate, or once moved, back to the "small" rate, only if their consumption history or a clear permanent change in consumption makes it clear the Customer will meet the volume requirements of one Pricing Plan.

    A review may be initiated by either the Company or the Customer. Any change of Pricing Plan, if appropriate, will be effective with the first bill issued seven (7) days after the initiation of the review. No adjustment of past billings due to Pricing Plan selection will be made to either the Company or the Customer, except for a new Customer who qualifies for the "large" Pricing Plan based on twelve (12) months of usage as set forth in this Rule.

3. Upon Customer request, the Company shall make available to the Customer, a copy of the ACC's Rules and Regulations (Arizona Administrative Code, Title 14, Article 3 - Gas Utilities) concerning:

    a. Deposits;

    b. Termination of Service;

    c. Billing and Collection; and

    d. Complaint Handling.

4. The Company, upon Customer request, shall transmit a written statement of actual consumption by the Customer for each billing period during the prior twelve (12) months unless such data is not reasonably ascertainable.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS
(continued)

5. The Company shall inform all new Customers of their rights to obtain the information specified above.

6. The Company shall notify each Customer of the following information, in writing, within ninety (90) days after the Customer first receives gas service at a particular location:

   a. The Company does not maintain the Customer's buried piping;

   b. If the Customer's buried piping is not maintained, it may be subject to the potential hazards of corrosion and leakage;

   c. Buried gas piping should be periodically inspected for leaks, periodically inspected for corrosion if the piping is metallic, and repaired if any unsafe condition is discovered;

   d. When excavating near buried gas piping, the piping must be located in advance, and the excavation done by hand;

   e. Plumbing contractors and heating contractors may assist in locating, inspecting, and repairing the Customer's buried piping; and

   f. In order to reduce damage by outside forces, the Company is a member of the statewide one call system in all areas in which the Company has underground natural gas piping.

B. Information Required Due to Changes in Rates and Charges

1. The Company shall send affected Customers a concise summary of any changes in the Company's rates and charges significantly impacting those Customers.

2. This information shall be sent to the affected Customer(s) within sixty (60) days of the effective date of the change in the Company's rates and charges.

SECTION NO. 5
MASTER METERING

A. Mobile Home Parks – New Construction/Expansion

1. The Company shall refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion are individually metered by the Company. Main extensions and service line connections to serve such new construction or expansion shall be governed by the main extension and/or service line connection policies of these rules and regulations.

2. Permanent residential mobile home parks for the purpose of this rule shall mean mobile home parks where the average length of stay for an occupant is a minimum of six (6) months.

3. For the purpose of this rule, expansion means construction which has been started for additional permanent residential spaces after the effective date of this rule.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS

A. Priority and Timing of Service Establishments

1. After an Applicant has complied with the Company's application and deposit requirements and has been accepted for service by the Company, the Company shall schedule that Customer for service establishment.

2. Service establishment shall be scheduled for completion within five (5) business days of the date the Customer has been accepted for service, except in those instances when the Customer requests service establishment beyond the five (5) business day limitation.

3. When the Company has made arrangements to meet with a Customer for service establishment purposes and the Company or the Customer cannot make the appointment during the prearranged time, the Company shall reschedule the service establishment appointment to the satisfaction of both parties.

4. The Company shall schedule service establishment appointments within a maximum range of four (4) hours during normal business hours, unless another time frame is mutually acceptable to the Company and the Customer.

5. Service establishments shall be made only by qualified service personnel of the Company or its authorized representatives.

6. For the purpose of this rule, service establishments can occur only when the Customer's facilities are ready and acceptable to the Company and the Company needs only to install, read the meter, or turn the service on.

7. Whenever an Applicant requests after-hours handling of his request, the Company shall charge a fee set forth in the Statement of Additional Charges unless a special call out is required. If a special call out is required, the charge shall be for a minimum of one (1) hour at a rate set forth in the Statement of Additional Charges for the service work on the Customer's premises. Special handling of calls and the related charges shall be made only upon request of the Applicant. Even so, a Customer's request to have the Company establish service after-hours is subject to the Company having staff available; there is no guarantee that the Company will have the staffing available for service establishment, re-establishment or reconnection after regular business hours.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

B. Facilities

1. Customer Provided Facilities

   a. An Applicant for service shall be responsible for the safety and maintenance of all Customer piping from the point of delivery to the point of consumption.

   b. Meters shall be installed in a location suitable to the Company where the meters will be safe from street traffic, readily and safely accessible for reading, testing and inspection, and where such activities will cause the least interference and inconvenience to the Customer. The Customer shall provide, without cost to the Company and at a suitable and easily accessible location, sufficient and proper space for the installation of meters.

   c. Where the meter or service line location on the Customer's premises is changed at the request of the Customer or due to alterations on the Customer's premises, the Customer shall provide, and have installed at his expense, all Customer piping necessary for relocating the meter and the Company may make a charge for moving the meter and/or service line.

   d. On all newly-constructed Customer piping at the meter interconnection, the Customer will be required to install necessary piping and equipment before the meter is installed.

2. Company Provided Facilities

   a. The Company will install, at its own expense, the meter set assembly ("MSA") at a suitable location near the side wall of the Customer's building approximately three (3) feet or more from that front corner of the building nearest to the street in which the Company's distribution main is located. However, the Company, at its option, has the right to locate the meter at any location meeting the criteria of Subsection B.1.b of this section.

      The three (3) feet as noted above refers to the approximate location of the meter from the corner of the building that is nearest to the street in which the distribution main servicing that Customer is located. The gas service riser, service cock, regulator and meter are all above ground. The service from the Company's distribution main to the building is below ground.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

b. The Company or authorized representative will install the gas service line and make all connections of the gas service line from the distribution main to the service riser. The Company will in all cases be responsible for the cost of construction of the service line from the Company's distribution main to the Customer's property line for an amount not to exceed the allowable investment as calculated by the Incremental Contribution Study (see Section No. 7, Subsection B), with the Customer reimbursing the Company for the difference. The Customer will reimburse the Company for the gas service line on the Customer's property at a rate of twenty-two dollars and fifty cents ($22.50) per foot. The Customer is responsible for removal of landscaping prior to installation or be subject to applicable charges. For Customers who provide the trench for the service line on the Customer's property, Section No. 7, Subsection B.4.d will apply and the Customer will reimburse the Company at a rate of sixteen dollars and fifty cents ($16.50) per foot. The Customer, at the Customer's own expense, shall furnish, install, and be responsible for all other pipe, fittings, connections, and appurtenances between the point of delivery and each point of consumption. The cost of installation, paid by the Applicant, shall be the average actual cost of installation, calculated and averaged annually by the Company.

c. No Customer-owned pipe shall be directly connected with the Company's distribution mains or services. No connection shall be made by the Customer between the facilities of the Company, including the meter, service cock and regulator and those of the Customer, nor shall any facilities of the Company be set, connected, disconnected, removed, repaired or altered except by the Company's representatives.

d. A single meter and a single point of delivery may be used to supply a group of buildings, such as those of a hospital or industrial establishment under single ownership or control. Such applications may fall under the Master Meter rule as defined in the Arizona Administrative Code.

e. The Company may decline service to mobile residences or portable or other temporary structures if the conditions do not afford adequate protection for the occupant(s) thereof, or the persons or property of others. In no event will gas service be permitted, if to the Company's knowledge, the Customer or the Customer's facilities fail to meet applicable requirements of law, of the State, or of any local code.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

3. Easements and Right-of-Way

   Each Customer shall grant, at no cost to the Company, an adequate easement and right-of-way, satisfactory to the Company to ensure proper service connection. Failure on the part of the Customer to grant an adequate easement and right-of-way shall be grounds for the Company to refuse service.

4. Unauthorized work or facilities

   When the Company discovers that a Customer or the Customer's Agent has performed work or has constructed facilities that has altered the installation of the Company's facilities to the point that work is necessary to restore the previously installed Company facilities to meet regulatory or Company requirements, the Company shall notify the Customer or the Customer's Agent and the Company shall take whatever actions are necessary to eliminate the hazard or violation at the Customer's expense.

5. Point of Delivery

   The point of delivery for all gas delivered to any Customer shall be at the point of interconnection between the facilities of the Company and those of the Customer.

6. Excess Flow Valve Installation

   In accordance with Title 49, Section 192.381 of the Code of Federal Regulations and requirements set forth in HR5782, the installation of an Excess Flow Valve ("EFV") shall be performed by the Company on each single family residence service line connected to its distribution system whether the service line is installed or entirely replaced.

   a. The Applicant shall provide the Company information concerning the gas usage and demand requirements. The EFV will be designed and constructed so that suitable gas capacity is available and satisfactory to the Company.

   b. The Company will construct, own, operate, and maintain the EFV in connection with the service line installation.

   c. Costs associated with the mandated installation of the EFV shall be paid by the Applicant as a nonrefundable Contribution in Aid of Construction ("CIAC").

      i. The cost of installation, paid by the Applicant, shall be the average actual cost of installation, calculated and averaged annually by the Company.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

d. Where it is necessary to change or alter the EFV, due to a request or alteration of the Customer's premise by the Customer, the Customer shall reimburse the Company for all expenses in connection with upgrading or removing the EFV.

e. The Company shall pay for all costs associated with replacement or maintenance of the EFV in connection with a line replacement or maintenance project.

SECTION NO. 7
EXTENSION OF LINES

Extensions of gas distribution services and mains necessary to furnish permanent service to Applicants will be made in accordance with this rule.

A. General

The Company will construct, own, operate and maintain service line and distribution main extensions.

1. Gas service lines will be designed and installed so that suitable capacity from the Company's distribution main to a meter location on the property of the Applicant is satisfactory to the Company. If downstream usage changes or is altered by the Customer, the Customer may be responsible for costs to upgrade or enlarge the service line to accommodate additional capacity requirements.

2. Gas distribution main extensions will be only along public streets, roads, and highways, which the Company has legal right to occupy, and on public lands and private property across which rights-of-way, satisfactory to the Company, may be obtained.

3. All Company distribution mains and service lines shall be installed in accordance with all applicable Company standards.

B. Service and Main Extensions to Applicants for Service

General Policy – All service line and main line extension agreements are made on the basis of economic feasibility.

1. Facility Charge – If any Applicant fails to use natural gas for equipment stated in the application and used as the basis for estimating the allowable investment within four (4) months of the completion of the main, the Company may bill the Applicant for the incremental cost allowed towards the extension of service. The Applicant shall pay within forty-five (45) days the charge as a non-refundable contribution towards the cost of extending service.

2. At its option, the Company may require a performance bond or other surety guaranteeing bona fide operation of the facility for which the extension is requested, in accordance with Applicant's representation in the contract.

SECTION NO. 7
EXTENSION OF LINES
(continued)

3. Master Meter Extensions – If the residential Customers are tenants in a fully improved master-metered mobile home park ("MMP") and the MMP is currently or was formerly served as a master-metered mobile home park, the allowable investment for the MMP will be calculated by the following Incremental Contribution Method and formula:

$$AI = (FR - CR) \times 5$$

where: AI = Allowable Investment

FR = The MMP's estimated future total annual revenue, assuming conversion to individual residential service, using the MMP's average park occupancy for the past two (2) years, less the Company's current average cost of purchased gas.

CR = The MMP's current total annual revenue, under the applicable schedule, averaged for the past two (2) years, less the Company's current average cost of purchased gas. If the MMP is not a current Customer of the Company, the CR will be determined on the basis of engineering estimates of occupancy and usage.

The Company will install that portion of each service in excess of the allowed investment subject to a nonrefundable contribution to be paid by the Applicant MMP prior to construction. In no event shall costs above the allowable investment be borne by the Company.

4. Incremental Contribution Method – Gas service line and main line extensions will be made by the Company at its expense for an amount not to exceed the allowable investment as calculated by an Incremental Contribution Study ("ICS").

   a. Allowable investment shall mean a determination by the Company that the revenues less the incremental gas cost to serve the Applicant provides a rate of return on the Company's investment no greater than the weighed average cost of capital authorized by the ACC in the Company's most recent general rate case.

   b. If the ICS has an allowable investment that is more than the cost of the main extension, then the excess amount may be applied to reduce the cost of service line installation up to the Customer's property line, except that it shall not be used to reduce the cost of excess flow valve installation which shall be paid by the customer.

   c. The Company, after conducting an ICS, may at its option, extend its facilities to Customers whose usage does not satisfy the definition of economic feasibility, but who otherwise are permanent Customers, provided the Customer pays a nonrefundable contribution, necessary to make the extension economically feasible.

   d. Applicants may provide trenching for service lines and/or distribution mains to the Company's specifications and the Applicant's costs will be reduced accordingly.

SECTION NO. 7
EXTENSION OF LINES
(continued)

e. Customers provided with line extensions using the ICS shall be reviewed annually for a period of five (5) years to determine the amount of any refund, as described in Subsection B.5 below.

f. For the purposes of this rule, "economic feasibility" means that the estimated incremental revenues derived from serving the Applicant, less the incremental gas cost to serve the Applicant, meets the estimated costs of serving the Applicant, including meeting capital costs as determined by the weighed average cost of capital authorized by the ACC in the Company's most recent general rate case. An extension will not be considered economically feasible if the Applicant does not install a functioning water heater and furnace within four (4) months of the completion of the main.

5. Method of Refund

Amounts advanced by the Customer(s) in accordance with this rule, less any unpaid Facility Charges, shall be refunded, without interest, in the following manner:

a. Refunds of an advance shall be made for each additional separately metered permanent service connected to the main extension for which an advance was collected using an ICS that includes the additional Customer(s).

b. No refunds will be made for additional Customers connecting to a further extension or series of extensions constructed beyond the original extension.

c. The Customer may request an annual survey to determine if additional Customers have been connected to and are using service from the extension. In no case shall the amount of the refund exceed the amount originally advanced.

d. The refund period shall be five (5) years from the date of the completion of the extension. No refunds will be made by the Company after the termination of the refund period. Any portion of the advance that remains unrefunded at the end of the refund period shall be considered an unrefundable contribution.

e. Any assignment by a Customer of their interest in any part of an advance, which at the time remains unrefunded, must be made in writing and approved by the Company.

f. Amounts advanced under a gas main extension rule previously in effect will be refunded in accordance with the provisions of that rule.

SECTION NO. 7
EXTENSION OF LINES
(continued)

C. Service and Main Extensions to Service Individually Metered Subdivisions, Tracts, Housing Projects, Multi-Family Dwellings and Mobile Home Parks or Estates

1. Advances

   a. Gas distribution service and main extensions to and within individually metered subdivisions, tracts, housing projects, multi-family dwellings and mobile home parks or estates will be constructed, owned and maintained by the Company in advance of applications for service by bona fide Customers only when the entire estimated cost of such extensions as determined by the Company, is advanced to the Company, and a main extension agreement is executed. This advance may include the cost of any gas facilities installed at the Company's expense in conjunction with a previous service or main extension in anticipation of the current extension.

   b. The Company may require a subdivider, builder or developer to provide trenching for service lines and/or distribution mains and may also require the subdivider, builder or developer to provide bedding & shading material to Company specifications.

   c. For developers who have entered into a main extension agreement and facilities have been installed and then they or some other party request subsequent reconfiguring of facilities or other changes requiring additional expenditures by the Company, these new costs will be entirely paid for with a non-refundable contribution and any refunds will be made in accordance with the original agreement. No additional agreement or extension of the time for refunds will be made to cover the area piped under the original extension agreement.

   d. Upon completion of installation, the Company will perform a reconciliation of the estimate to actual costs incurred and may bill the Customer for any variance with the new amount included in the refundable balance, or at the Company's option withhold refunds until the underpayment is satisfied.

   e. See Subsection B.3 above for requests to serve MMP through individual residential meters if the MMP is currently or was formerly served under an MMP schedule.

   f. Refunds will be made to developers as described in Subsection B.5 above.

D. General Conditions

1. Postponement of Advance

   The Company, at its option, may postpone, for a period not to exceed five (5) years that portion of an advance which it estimates would be refunded under the provisions of this rule. At the end of such refund period, the Company shall collect all such amounts not previously advanced. When advances are postponed, the Applicant may be required to furnish to the Company, a Company-approved surety, to assure payment of any postponed amounts throughout the term of the facilities extension agreement up until the end of the postponement period.

SECTION NO. 7
EXTENSION OF LINES
(continued)

2. The Applicants or developer will provide property location, tax identification numbers, lot numbers, street names and other property information helpful to planning an extension.

3. Contracts

   a. Each Applicant requesting an extension in advance of applications for service will be required to execute a main extension agreement covering the terms under which the Company will install distribution mains in accordance with the provisions of the Company's Pricing Plans.

   b. At the time service is requested, the Applicant will submit a list of natural gas equipment to be used including the BTU input.

4. One Service for a Single Premise

   a. The Company will not install more than one service line to supply a single premise, unless it is for the convenience of the Company or an Applicant requests an additional service, and in the opinion of the Company, an unreasonable burden would be placed on the Applicant if the additional service were denied. When an additional service is installed at the Applicant's request, the Applicant shall make a nonrefundable contribution for the additional service based on the Company's estimated cost.

   b. When a service extension is made to a meter location upon private property which is subsequently subdivided into separate premises, with the ownership portions thereof divested to other than the Applicant or the Customers, the Company shall have the right, upon written notice, to discontinue service without obligation or liability. Gas service, as required by the Applicant or Customer, will be reestablished in accordance with the applicable provisions of the Company's rules.

5. Branch Services

   The Company, at its option, may install a branch service for units on adjoining premises.

SECTION NO. 7
EXTENSION OF LINES
(continued)

6. Main Extension Agreement Requirements

   a. Upon request by an Applicant for a main extension, the Company shall prepare, without charge, a preliminary sketch and rough estimate of the cost of the installation to be advanced by the Applicant.

   b. Any Applicant for a main extension requesting the Company to prepare detailed plans, specifications, or cost estimates may be required to deposit with the Company an amount equal to the estimated cost of preparation. The Company shall, upon request, make available within ninety (90) days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the Applicant authorizes the Company to proceed with the construction of the extension, the deposit shall be credited to the cost of construction; otherwise, the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the Company's expense, appropriate details shall be set forth in the plans, specifications and cost estimates. Subdividers providing the Company with approved subdivision plats shall be provided with plans, specifications or cost estimates within forty-five (45) days after receipt of the deposit referred to above.

   c. The estimated cost of main extension and any resulting Main Extension Agreement is valid for ninety (90) days from the date of Company issue. Any signed agreement with appropriate payment where construction does not commence within ninety (90) days may be subject to review, recalculation and adjustment of advance requirements.

   d. Where the Company requires an Applicant to advance funds for a main extension, the Company will furnish the Applicant, upon request, with a copy of this rule prior to the Applicant's acceptance of the Company's extension agreement.

SECTION NO. 7
EXTENSION OF LINES
(continued)

e. All main extension agreements requiring payment by the Applicant shall be in writing, signed by each party and shall include the following:

   i. Name and address of Applicant(s);
   ii. Proposed service address(es) or location(s);
   iii. Description and sketch of the requested main extension;
   iv. Description of requested service differentiated by Customer class;
   v. Number of Customers served;
   vi. Estimated cost to construct facilities;
   vii. The Company's estimated start date and completion date for construction of the main extension;
   viii. Each Applicant shall be provided a copy of the approved main extension agreements;
   ix. Payment terms; and
   x. A concise explanation of any refunding provisions, if applicable.

7. Relocation of Service Lines and Distribution Mains

   a. When, in the judgment of the Company, the relocation of a distribution main or service line is necessary and is due either to maintenance of adequate service or the operating convenience of the Company, the Company shall perform such work at its own expense.
   b. If relocation of a distribution main or service line is due solely to meet the convenience or the requirements of the Applicant or the Customer, such relocation, including metering and regulating facilities, shall be performed by the Company at the expense of the Applicant or the Customer.
   c. Relocation of facilities will be mandatory and at the Customer's expense when actions of the Customer restrict the Company's access to or the safety of the facility.

8. Standby Service or Residential Pool Heating

   No allowance will be made for equipment used for standby or emergency purposes only or for equipment used for residential pool heating under Section No. 7, Subsection B.4.

SECTION NO. 7
EXTENSION OF LINES
(continued)

9. Temporary Service

Extensions for temporary service or for operations, which in the opinion of the Company are of a speculative character or are of questionable permanency, will require an advance for the entire cost of the facilities needed, with provision for a refund using an ICS calculated annually, or at the termination of the temporary service.

10. Length and Location

The length of distribution mains or service lines required for an extension will be considered as the distance along the shortest practical and available route, as determined by the Company, from the Company's nearest permanent distribution main.

11. Service Impairment to Other Customers

When, in the judgment of the Company, providing service to an Applicant would impair service to other Customers, the cost of necessary reinforcement to eliminate such impairment may be included in the cost calculation for the extension.

12. Service From Transmission Lines

The Company will not tap a gas transmission main except when, in its sole opinion, conditions justify such a tap. Where such taps are made, the Applicant will pay the Company the cost of the tap, and extensions from the tap will be made in accordance with the provisions of this rule.

13. Other Types of Connections

Where an Applicant or Customer requests a type of service connection other than standard such as curb meters and vaults, etc., the Company will consider each such request and will grant such reasonable allowance as it may determine. The Company shall install only those facilities that it determines are necessary to provide standard natural gas service in accordance with the Company's Pricing Plans. Where the Applicant requests the Company to install special facilities which are in addition to, or in substitution for, or which result in higher costs than the standard facilities which the Company would normally install, the extra cost thereof shall be borne by the Applicant.

SECTION NO. 7
EXTENSION OF LINES
(continued)

14. Exceptional Cases

In unusual circumstances, when the application of this rule appears impractical or unjust to either party, the Company or the Applicant may refer the matter to the ACC for special ruling or for the approval of special conditions which may be mutually agreed upon, prior to commencing construction.

15. Taxes Associated with Nonrefundable Contributions and Advances

Any federal, state or local income taxes resulting from a nonrefundable contribution or advance by the Customer in compliance with this rule will be recorded as a deferred tax and appropriately reflected in the Company's rate base. However, if the estimated cost of facilities for any service line or distribution main extension exceeds $500,000, the Company may require the Applicant to include in the contribution or advance an amount (the "gross up amount") equal to the estimated federal, state or local income tax liability of the Company resulting from the contribution or advance, computed as follows:

$$\text{Gross Up Amount} = \frac{\text{Estimated Construction Cost}}{(1 - \text{Combined Federal-State-Local Income Tax Rate})}$$

After the Company's tax returns are completed, and actual tax liability is known, to the extent that the computed gross up amount exceeds the actual tax liability resulting from the contribution or advance, the Company shall refund to the Applicant an amount equal to such excess. When a gross-up amount is to be obtained in connection with an extension agreement, the contract will state the tax rate used to compute the gross up amount, and will also disclose the gross-up amount separately from the estimated cost of facilities. In subsequent years, as tax depreciation deductions are taken by the Company on its tax returns for the constructed assets with tax bases that have been grossed-up, a refund will be made to the Applicant in an amount equal to the related tax benefit. Such refunds will be in addition to any required refunds of actual construction costs required by the extension agreement. In lieu of scheduling such refunds over the remaining tax life of the constructed assets, a reduced lump sum refund may be made at the time when actual construction costs are refunded in full. This lump sum payment shall reflect the net present value of remaining tax depreciation deductions discounted at the Company's authorized rate of return.

SECTION NO. 8
PROVISION OF SERVICE

A. Company Responsibility

1. The Company shall be responsible for the safe transmission and distribution of gas until it passes the point of delivery to the Customer.

2. The Company shall be responsible for maintaining in safe operating condition all meters, regulators, service pipe or other fixtures installed on the Customer's premises by the Company for the purpose of delivering gas to the Customer.

3. The Company may, at its option, refuse service until the Customer's pipes and appliances have been tested and found to be safe, free from leaks, and in good operating condition. Proof of such testing shall be in the form of a certificate executed by a licensed plumber or local inspector certifying that the Customer's facilities have been tested and are in safe operating condition.

4. The Company shall be required to test the Customer's piping for leaks when the gas is turned on. If such tests indicate leakage in the Customer's piping, the Company shall refuse to provide service until such time as the Customer has had the leakage corrected.

5. The Company shall be responsible for the operation and maintenance of all facilities up to the outlet of the meter installed by the Company or its authorized agent.

B. Customer Responsibility

1. Each Customer shall be responsible for maintaining in safe operating condition all Customer piping fixtures and appliances on the Customer's side of the point of delivery.

2. Each Customer shall be responsible for safeguarding all Company property installed in or on the Customer's premises for the purpose of supplying gas service.

3. Each Customer shall exercise all reasonable care to prevent loss or damage to Company property, excluding ordinary wear and tear. The Customer shall be responsible for loss of or damage to, Company property on the Customer's premises arising from neglect, carelessness, or misuse and shall reimburse the Company for the cost of necessary repairs and replacements that arise from neglect, carelessness, or misuse.

4. Each Customer shall be responsible for payment for any equipment damage and/or estimated unmetered usage resulting from unauthorized breaking of seals, interfering, tampering, or by-passing the Company's meters. This remedy is cumulative to any other remedy available to Company under law or ACC rules.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

5. Each Customer shall be responsible for promptly notifying the Company of any gas leakage identified in the Customer's or the Company's equipment.

6. The Customer will be responsible for the loss of gas or damage caused by gas in piping beyond the Company's meter.

7. No rent or other charge whatsoever will be made by the Customer against the Company for placing or maintaining meters, regulators, service lines, fixtures, etc. upon the Customer's premises.

C. Continuity of Service

The Company shall make reasonable efforts to supply a satisfactory and continuous level of service.

D. Liability

1. The Company shall not be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from the following:

    a. Any cause against which the Company could not have reasonably foreseen or made provision for;

    b. Intentional service interruptions to make repairs or perform routine maintenance; or

    c. Curtailment.

2. Neither the Company nor the Customer shall be liable to the other for any act, omission or circumstances (including, with respect to the Company, but not limited to, inability to provide service) occasioned by or in consequence of flood, rain, wind, storm, lightning, earthquake, fire, landslide, washout or other acts of the elements, or accident or explosion, or war, rebellion, civil disturbance, mobs, riot, blockade, terrorist actions, or other acts of the public enemy, or acts of God, or interference of civil and/or military authorities, or strikes, lockouts or other labor difficulties, or vandalism, sabotage or malicious mischief, or usurpation of power, or the laws, rules, regulations or orders made or adopted by any regulatory or other governmental agency or body (federal, state or local) having jurisdiction of any of the business or affairs of the Company or the Customer, direct or indirect, or breakage or accidents to equipment or facilities, or lack, limitation or loss of electrical or gas supply, or any other casualty or cause beyond the reasonable control of the Company or the Customer, whether or not specifically provided herein and without limitation to the types enumerated, and which by the exercise of due diligence such party is unable to prevent or overcome; provided, however, that nothing contained herein shall excuse the Customer from the obligation of paying for gas delivered or services rendered.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

3. A failure to settle or prevent any strike or controversy with employees or with anyone purporting or seeking to represent employees shall not be considered to be a matter within the control of the Company.

4. Company will not be responsible for any third-party claims against Company that arise from Customer's use of Company's gas.

5. Customer will indemnify, defend and hold harmless the Company (including the costs of reasonable attorney's fees) against all claims (including, without limitation, claims for damages to any business or property, or injury to, or death of, any person) arising out of any act or omission of the Customer, or the Customer's agents, in connection with the Company's service or facilities.

6. The liability of the Company for damages of any nature arising from errors, mistakes, omissions, interruptions, or delays of the Company, its agents, servants, or employees, in the course of establishing, furnishing, rearranging, moving, terminating, or changing the service or facilities or equipment shall not exceed an amount equal to the charges applicable under the Company's Pricing Plan (calculated on a proportionate basis where appropriate) to the period during which such error, mistake, omission, interruption or delay occurs.

7. In no event shall the Company be liable for any incidental, indirect, special, or consequential damages (including lost revenue or profits) of any kind whatsoever regardless of the cause or foreseeability thereof.

8. The Company shall not be responsible for any loss or damage occasion or caused by the negligence or wrongful act of the Customer or any of his agents, employees or licensees in installing, maintaining, using, operating or interfering with any regulators, gas piping, appliances, fixtures or apparatus.

E. Change in Character of Service

1. When a change is made by the Company in the type of service rendered which would adversely affect the efficiency of operation or require the adjustment of the equipment of Customers, all Customers who may be affected shall be notified by the Company at least thirty (30) days in advance of the change or, if such notice is not possible, as early as feasible. Where adjustments or replacements of the Company's standard equipment must be made to permit use under such changed condition, adjustments shall be made by the Company without charge to the Customers.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

F. Service Interruptions

1. The Company shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.

2. The Company shall make reasonable provisions to meet emergencies resulting from failure of service and shall issue instructions to its employees covering procedures to be followed in the event of emergencies in order to prevent or mitigate interruption or impairment of service.

3. In the event of a national emergency or local disaster resulting in disruption of normal service, the Company may, in the public interest, interrupt service to other Customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.

4. When the Company plans to interrupt service for more than four (4) hours to perform necessary repairs or maintenance, the Company shall attempt to inform affected Customers of the scheduled date and estimated duration of the service interruption at least twenty-four (24) hours in advance. Such repairs shall be completed in the shortest possible time to minimize the inconvenience to the Customers.

5. The ACC shall be notified of interruptions in service affecting the entire system or any major division of the entire system. The interruption of service and the cause shall be reported by telephone to the ACC within one (1) hour after the responsible representative of the Company becomes aware of said interruption, and shall be followed by a written report to the ACC.

G. Heat Value Standard for Natural Gas

The Company shall supply gas to its Customers with an average total heating value of not less than nine hundred (900) BTUs per cubic foot. The number of BTUs per cubic foot actually delivered through the Customer's meter will vary according to the altitude and elevation of the location where the Customer is being provided service.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

H. Standard Delivery Pressure

1. The Company shall maintain the Standard Delivery Pressure at the outlet of the Customer's meter, subject to variation under load conditions.

2. In cases where a Customer desires service at greater than Standard Delivery Pressure, the Company may supply, at its option, such greater pressure if and only as long as the furnishing of gas to such Customer at higher than standard delivery pressure will not be detrimental to the service of other Customers of the Company. The Company reserves the right to lower the delivery pressure or discontinue the delivery of gas at higher pressure at any time upon reasonable notice to the Customer. Where service is provided at pressure higher than Standard Delivery Pressure, the meter volumes shall be corrected to that higher pressure.

I. Determination of Therms for Billing

1. Heating Value – The heating value (BTU per cubic foot) of the natural gas delivered will vary depending on the source of supplies received by the Company. The average heating values will be determined from the volumetric weighted average heating values of the supplies received by the Company.

2. Metered Volumes – The number of therms to be billed will be determined by multiplying the difference in meter readings by an appropriate billing factor.

   a. Therms are determined from the volumes measured by the following:

$$\underbrace{\frac{\text{Atmospheric Pressure at Elevation + Delivery Pressure}}{\text{14.73 Atmospheric Pressure at Sea Level}}}_{\textbf{A}} \times \underbrace{\frac{\text{Average Heating Value (BTU per cubic foot)}}{\text{100,000 BTU per Therm}}}_{\textbf{B}} \times \underbrace{\text{Super Compressibility Factor}}_{\textbf{C}}$$

   Where:

   A = Correction for atmospheric pressure at elevation and applicable delivery pressure
   B = Applicable heating value of natural gas received
   C = Correction for super compressibility ratio

   b. Atmospheric Pressures at Elevations within the Company's service territory are outlined in the following table. At such time additional elevation bands are needed within the various areas served by the Company, new bands will be added.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Elevation Range	Atmospheric Pressure Base
201 - 400	14.57206
401 - 600	14.46665
601 - 800	14.36200
801 - 1000	14.25810
1001 - 1200	14.15495
1201 - 1400	14.05253
1401 - 1600	13.95084
1601 - 1800	13.84987
1801 - 2000	13.74962
2001 - 2200	13.65007
2201 - 2400	13.55122
2401 - 2600	13.45306
2601 - 2800	13.35558
2801 - 3000	13.25878
3001 - 3200	13.16265
3201 - 3400	13.06718
3401 - 3600	12.97237
3601 - 3800	12.87820
3801 - 4000	12.78468
4001 - 4200	12.69179
4201 - 4400	12.59954
4401 - 4600	12.50791
4601 - 4800	12.41689
4801 - 5000	12.32648
5001 - 5200	12.23668
5201 - 5400	12.14748
5401 - 5600	12.05887
5601 - 5800	11.97084
5801 - 6000	11.88340
6001 - 6200	11.79653
6201 - 6400	11.71023
6401 - 6600	11.62449

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Elevation Range	Atmospheric Pressure Base
6601 - 6800	11.53932
6801 - 7000	11.45469
7001 - 7200	11.37061
7201 - 7400	11.28708
7401 - 7600	11.20408

J. Construction Standards and Safety

The Company's pipelines and pipeline facilities for the transportation of gas within the State of Arizona shall conform with and be subject to the Federal Safety Standards as adopted by the United States Department of Transportation, Pipeline and Hazardous Materials Safety Administration. The Company maintains and updates an Operation and Maintenance plan and an Emergency plan. Upon discovery of occurrence, the Company will report all incidents as required under the Arizona Administrative Code, R14-5-203.

SECTION NO. 9
METER READING

A. Company or Customer Meter Reading

1. The Company may, at its discretion, allow for Customer reading of meters.
2. It shall be the responsibility of the Company to inform the Customer how to properly read the Customer's meter.
3. Where a Customer reads the meter, the Company will read the Customer's meter at least once every six (6) months.
4. The Company shall specify the timing requirements for the Customer to submit the monthly meter reading to conform to the Company's billing cycle.
5. In the event the Customer fails to submit the meter reading on time, the Company may issue the Customer an estimated bill.
6. Meters shall be read monthly on as close to the same day each month as practical.

B. Measuring of Service

1. All gas sold by the Company shall be metered, except in the case of gas sold according to a fixed charge schedule, or when otherwise authorized by the ACC.
2. When there is more than one (1) meter at a location, the metering equipment shall be so tagged or plainly marked as to indicate the facilities being metered.
3. If and when the Company installs multiple meters or service lines to serve a single Customer for the Company's convenience, meter readings may be combined for billing purposes.

C. Customer-Requested Meter Rereads

1. At the request of a Customer, the Company will reread that Customer's meter within ten (10) business days after such request by the Customer.
2. Any reread will be charged to the Customer at a rate set forth in the Statement of Additional Charges, provided that the original reading was not in error
3. When a reading is found to be in error, the re-read shall be at no charge to the Customer.

SECTION NO. 9
METER READING
(continued)

D. Access to Customer Premises

The Company shall have the right of safe ingress to and egress from the Customer's premises at all reasonable hours for any purpose reasonably connected with the furnishing of service and the exercise of any and all rights secured to the Company by law or the ACC's rules or the Company's Pricing Plans.

E. Customer-Requested Meter Tests

The Company shall test a meter upon Customer request and shall be authorized to charge the Customer for such meter test. The charge for the meter test is set forth in the Statement of Additional Charges. However, if the meter is found to be in error by more than three percent (3%), no fee will be charged to the Customer.

SECTION NO. 10
BILLING AND COLLECTION

A. Frequency and Estimated Bills

1. The Company shall bill monthly for services rendered. Meter readings shall be scheduled for periods of not less than twenty-five (25) days or more than thirty-five (35) days.

2. If the Company is unable to read a meter on the scheduled meter read date, the Company will estimate the consumption for the billing period, giving consideration to the following factors where applicable:

   a. The Customer's usage history in the previous twelve (12) months; and

   b. The amount of usage during the preceding month.

3. After the second consecutive month of estimating the Customer's bill for reasons other than severe weather, the Company will attempt to secure an accurate reading of the meter.

4. Failure on the part of the Customer to comply with a reasonable request by the Company for access to the Customer's meter may lead to the discontinuance of service.

5. Estimated bills will be issued only under the following conditions:

   a. Failure of a Customer who reads his or her own meter to deliver the meter reading card to the Company in accordance with the requirements of the Company's billing cycle;

   b. Severe weather conditions which prevent the Company from reading the meter; or

   c. Circumstances that make it impossible to read the meter, such as locked gates, blocked meters, and vicious or dangerous animals, etc.

6. Each bill based on estimated usage will indicate that it is an estimated bill.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

B. Combining Meters - Minimum Bill Information

1. Each meter at a Customer's premises will be considered separately for billing purposes; and the readings of two (2) or more meters will not be combined unless approved by the Company.

2. Each bill for sales service will contain the following minimum information:

   a. Date and meter reading at the start of billing period or number of days in the billing period;
   b. Date and meter reading at the end of the billing period;
   c. Billed usage;
   d. Rate schedule number;
   e. Company's telephone number;
   f. Customer's name;
   g. Service account number;
   h. Amount due and due date;
   i. Past due amount;
   j. Adjustment factor, where applicable;
   k. Taxes; and
   l. The Arizona Corporation Commission's address.

C. Billing Terms

1. All bills for gas service are due and payable no later than ten (10) days from the date the bill is rendered. Any payment not received within this time-frame shall be considered past due and may be subject to a late payment finance charge as set forth in the Statement of Additional Charges. If the tenth (10th) day falls on a weekend or holiday, then the past due date is extended to the next business day.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

2. For purposes of this rule, the date the bill is rendered shall be the latest of the following:

    a. The postmark date;

    b. The mailing date; or

    c. The billing date shown on the bill (however, the billing date shall not differ from the postmark or mailing date by more than two (2) days.

3. All past due bills for gas service are due and payable within fifteen (15) days. Any payment not received within this time-frame shall be considered delinquent and will be issued a suspension of service notice. For Customers under the jurisdiction of a bankruptcy court, a more stringent payment or prepayment schedule may be required, if allowed by that court.

    a. The amount of the late payment penalty shall not exceed one and one-half percent (1.5%) of the delinquent bill, applied on a monthly basis.

4. All delinquent bills for which payment has not been received within five (5) days shall be subject to the provisions of the Company's suspension of service procedures.

5. All payments shall be made at or mailed to the office of the Company or to the Company's duly authorized representative.

6. A past due payment may be collected by a Company representative at the Customer's premises for a fee as set forth in the Statement of Additional Charges.

D. Applicable Pricing Plans, Prepayments, Failure to Receive, Commencement Date

1. Each Customer shall be billed under the Pricing Plan indicated in the Customer's application for service.

2. The Company shall make provisions for advance payment for Company services.

3. Failure to receive bills or notices which have been properly placed in the United States mail shall not prevent such bills from becoming delinquent and does not relieve the Customer of the Customer's obligations therein.

4. Charges for service commence when the service is installed and connection made, whether used or not.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

E. Meter Error Corrections

1. If, after testing, any meter is found to be more than three percent (3%) in error, either fast or slow, proper correction between three percent (3%) and the amount of the error shall be made on previous readings, and adjusted bills shall be rendered according to the following terms:

    a. For the period of three (3) months immediately preceding the removal of such meter from service for testing or from the time the meter was in service since last tested, but not exceeding three (3) months since the meter shall have been shown to be in error by such test.

    b. From the date the error occurred, if the date of the cause can be definitely fixed.

2. No adjustment shall be made by the Company except to the Customer last served by the meter tested.

F. Nonsufficient Funds ("NSF") Checks and Denied Electronic Funds Transfers

1. The Company shall be allowed to recover a fee set forth in the Statement of Additional Charges, for each instance where a Customer tenders payment for a Company service with an NSF check. This fee shall also apply when an electronic funds transfer ("EFT") is denied for any reason, including for lack of sufficient funds.

2. When the Company is notified by the Customer's bank that there are insufficient funds to cover the check tendered for service, or an EFT has been denied for any reason, the Company may require the Customer to make payment in cash, by money order or certified check, or by other means which guarantee the Customer's payment to the Company.

3. A Customer who tenders an NSF check or for whom an EFT is denied, shall in no way be relieved of the obligation to render payment to the Company under the original terms of the bill, nor defer the Company's provision for termination of service for nonpayment of bills.

4. No personal checks will be accepted if two (2) NSF checks have been received by the Company within a twelve (12) month period in payment of any billing.

G. Elevation/Pressure Adjustment

The Company shall adjust for pressure according to the procedures in Section 8.H of these Rules and Regulations.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

H. Deferred Payment Plan

1. The Company may, prior to termination of service, offer a deferred payment plan to qualifying residential Customers for the payment of unpaid bills for gas service.

2. Each deferred payment agreement entered into by the Company and the Customer, due to the Customer's inability to pay an outstanding bill in full, shall provide that service will not be discontinued if:

    a. The Customer agrees to pay a reasonable amount of the outstanding bill at the time the parties enter into the deferred payment agreement;

    b. The Customer agrees to pay all future bills for gas service in accordance with the Company's Pricing Plans; and

    c. The Customer agrees to pay a reasonable portion of the remaining outstanding balance in installments.

3. For the purposes of determining a reasonable installment payment schedule under these Rules, the Company and the Customer shall give consideration to the following conditions:

    a. The size of the delinquent account;

    b. The Customer's ability to pay;

    c. The Customer's payment history;

    d. The length of time that the debt has been outstanding;

    e. The circumstances which resulted in the debt being outstanding; and

    f. Any other relevant factors related to the circumstances of the Customer.

4. Any Customer who desires to enter into a deferred payment agreement shall establish such agreement prior to the Company's scheduled service termination date for nonpayment of bills. The Customer's failure to execute a deferred payment agreement prior to the scheduled service termination date shall not prevent the Company from terminating service for nonpayment.

5. Deferred payment agreements may be in writing and may be signed by the Customer and an authorized Company representative.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

6. A deferred payment agreement may include a finance charge of one and one-half percent (1.5%) per month.

7. If a Customer does not fulfill the terms of a deferred payment agreement, the Company shall have the right to disconnect service pursuant to the Company's termination of service rules (Section No. 11 of these Rules) and, under such circumstances, it shall not be required to offer subsequent negotiation of a deferred payment agreement prior to disconnection.

I. Change of Occupancy

1. Not less than three (3) business days advance notice must be given in person at the Company's office, in writing, or by telephone to discontinue service or to change occupancy.

2. The outgoing party shall be responsible for all Company services provided and/or consumed up to the scheduled turn-off date.

J. Electronic Billing

Electronic Billing is an optional billing service whereby Customers may elect to receive, view, and pay their bills electronically. Electronic Billing includes the "UES e-bill" service and the "Sure No Hassle Automatic Payment ("SNAP") service. The Company may modify its electronic billing services from time to time. A Customer electing an electronic billing service may receive an electronic bill in lieu of a paper bill. Customers electing an electronic billing service may be required to complete additional forms and agreements. Electronic billing may be discontinued at any time by the Company or the Customer. An electronic bill will be considered rendered at the time it is electronically sent to the Customer. Failure to receive bills or notices which have been properly sent by an electronic billing system does not prevent such bills from becoming delinquent and does not relieve the Customer of the Customer's obligations therein. Any notices which Company is required to send to a Customer who has elected an electronic billing service may be sent by electronic means at the option of the Company. Except as otherwise provided in this subsection, all other provisions of the Company's Rules and Regulations and other applicable Pricing Plans are applicable to electronic billing.

SECTION NO. 11
TERMINATION OF SERVICE

A. Non-Permissible Reasons to Disconnect Service

1. The Company may not disconnect service for any of the reasons stated below:

   a. Delinquency in payment for services rendered to a prior Customer at the premises where service is being provided, except in the instance where the prior Customer continues to reside on the premises.

   b. Failure of the Customer to pay for services or equipment that are not regulated by the ACC.

   c. Nonpayment of a bill related to another class of service.

   d. Failure to pay a bill to correct a previous under-billing due to an inaccurate meter or meter failure, if the Customer agrees to pay over a reasonable period of time.

   e. The Company may not terminate residential service where the Customer has an inability to pay and:

      i. The Customer can establish through medical documentation that, in the opinion of a licensed medical physician, termination of service would be especially dangerous to the health of the Customer or to the health of a permanent resident residing on the Customer's premises;

      ii. Life-supporting equipment is used in the home that is dependent on Company service for operation of such apparatus; or

      iii. Where weather will be especially dangerous to health as defined herein or as determined by the ACC.

   f. Residential service to persons who have an inability to pay and who have an illness, are elderly, or who are handicapped will not be terminated until all of the following have been attempted:

      i. The Customer has been informed of the availability of funds from various government and social assistance agencies; and

      ii. A third party previously designated by the Customer has been notified and has not made arrangement to pay the outstanding Company bill.

   A Customer utilizing the provisions of Subsection A.1.e or A.1.f above may be required to enter into a deferred payment agreement with the Company within ten (10) days after the scheduled service termination date.

   g. Failure to pay the bill of another Customer as guarantor thereof.

   h. Disputed bills where the Customer has complied with the ACC's rules on Customer bill disputes.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

B. Termination of Service Without Notice

1. The Company may disconnect service without advance written notice under the following conditions:

   a. The existence of an obvious hazard to the safety or health of the Customer, the general population or which imperils service to other Customers;

   b. The Company has evidence of tampering or fraud;

   c. There is an unauthorized resale or use of gas services that is not in accordance with the ACC's rules and/or these Rules and Regulations or other Company Pricing Plans; or

   d. The Customer has failed to comply with the curtailment procedures imposed by the Company in accordance with the Company's Pricing Plans.

2. The Company shall not be required to restore service until the conditions which resulted in the termination have been corrected to the satisfaction of the Company.

3. The Company shall maintain a record of all terminations of service without notice. This record shall be maintained for a minimum of one (1) year and shall be available for inspection by the ACC.

C. Termination of Service With Notice

1. The Company may disconnect service to any Customer for any reason stated below, provided that the Company has met the notice requirements described in Section 11.D below:

   a. Customer violation of any of the Company's Pricing Plans;

   b. Failure of the Customer to pay a delinquent bill for gas service;

   c. Failure of the Customer to meet agreed upon deferred payment arrangements;

   d. Failure to meet or maintain the Company's deposit requirements;

   e. Failure of the Customer to provide the Company reasonable access to its equipment and property;

   f. Customer breach of a written contract for service between the Company and Customer; or

   g. When necessary for the Company to comply with an order of any governmental agency having such jurisdiction.

2. The Company shall maintain a record of all terminations of service with notice. This record shall be maintained for one (1) year and shall be available for ACC inspection.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

D. Termination Notice Requirements

1. The Company may not terminate service to any of its Customers without providing advance written notice to the Customer of the Company's intent to disconnect service, except under those conditions specified where advance written notice is not required.

2. Such advance written notice shall contain, at a minimum the following information:

   a. The name of the person whose service is to be terminated and the address where service is being rendered;

   b. The Pricing Plan that was violated and explanation of the violation or the amount of the bill, which the Customer has failed to pay in accordance with the payment policy of the Company, if applicable;

   c. The date on or after which service may be terminated; and

   d. A statement advising the Customer that the Company's stated reason for the termination of services may be disputed by contacting the Company at a specific address or phone number, advising the Company of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the Company in advance of the scheduled date of termination. The responsible employee shall be empowered to resolve the dispute and the Company shall retain the option to terminate service after affording this opportunity for a meeting, concluding that the reason of terminating is just, and advising the Customer of his right to file a complaint with the ACC.

3. Where applicable, a copy of the termination notice will be simultaneously forwarded to designated third parties.

E. Timing of Terminations With Notice

1. The Company shall be required to give at least five (5) days advance written notice prior to the termination date. For Customers under the jurisdiction of a bankruptcy court, a shorter notice may be provided, if permitted by that court.

2. Such notice shall be considered to be given to the Customer when a copy of the notice is left with the Customer or posted first class in the United States mail, and addressed to the Customer's last known address.

3. If, after the period of time allowed by the notice has elapsed, the delinquent account has not been paid nor arrangements made with the Company for the payment of the bill, or in the case of a violation of the Company's rules the Customer has not satisfied the Company that such violation has ceased, the Company may terminate service on or after the day specified in the notice without giving further notice.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

4. Service may only be disconnected in conjunction with a personal visit to the premises by an authorized representative of the Company.

5. The Company shall have the right, but not the obligation, to remove any or all of its property installed on the Customer's premises upon the termination of service.

F. Landlord/Tenant Rule

1. In situations where service is rendered at an address different from the mailing address of the bill or where the Company knows that a landlord/tenant relationship exists and that the landlord is the Customer of the Company, and where the landlord as Customer would otherwise be subject to disconnection of service, the Company may not disconnect service until the following actions have been taken:

   a. Where it is feasible to provide service, the Company, after providing notice as required in these rules, shall offer the occupant the opportunity to subscribe for service in the occupant's own name. If the occupant then declines to subscribe, the Company may disconnect service pursuant to the rules.

   b. The Company shall not attempt to recover payment of any outstanding bills or other charges due on the outstanding account of the landlord from a tenant. The Company shall not condition service to a tenant based on the payment of any outstanding bills or other charges due upon the outstanding account of the landlord.

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS

A. Customer Service Complaints

1. The Company shall make a full and prompt investigation of all service complaints made by its Customers, either directly to the Company or through the ACC.

2. The Company shall respond to the complainant and/or the ACC representative within five (5) business days as to the status of the Company's investigation of the complaint.

3. The Company shall notify the complainant and/or the ACC representative of the final disposition of each complaint. Upon request of the complainant or the ACC representative, the Company shall report the findings of its investigation in writing.

4. The Company shall inform the Customer of the right of appeal to the ACC.

5. The Company shall keep a record of all written service complaints received and which shall contain, at a minimum, the following data:

   a. Name and address of complainant;

   b. Date and nature of complaint;

   c. Disposition of the complaint; and

   d. A copy of any correspondence between the Company, the Customer, and/or the ACC.

   This record shall be maintained for a minimum period of one (1) year and shall be available for inspection by the ACC.

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS
(continued)

B. Customer Bill Disputes

1. Any Customer who disputes a portion of a bill rendered for gas service shall pay the undisputed portion of the bill prior to the delinquent date of the bill, and notify the Company's designated representative that any unpaid amount is in dispute.

2. Upon receipt of the Customer's notice of dispute, the Company shall:

   a. Notify the Customer within five (5) business days of the receipt of a written dispute notice.

   b. Initiate a prompt investigation as to the source of the dispute.

   c. Withhold disconnection of service until the investigation is completed and the Customer is informed of the results. Upon request of the Customer, the Company shall report the results of the investigation in writing.

   d. Inform the Customer of the right of appeal to the ACC.

3. Once the Customer has received the results of the Company's investigation, the Customer shall submit payment within five (5) business days to the Company for any disputed amounts. Failure to make full payment shall be grounds for termination of service.

C. ACC Resolution of Service and/or Bill Disputes

1. In the event a Customer and the Company cannot resolve a service and/or bill dispute, the Customer shall file a written statement with the ACC. By submitting such written notice to the ACC, the Customer shall be deemed to have filed an informal complaint against the Company.

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS
(continued)

2. Within thirty (30) days of the receipt of a written statement of Customer dissatisfaction related to a service or bill dispute, a designated representative of the ACC shall endeavor to resolve the dispute by correspondence and/or by telephone with the Company and the Customer. If resolution of the dispute is not achieved within twenty (20) days of the ACC representative's initial effort, the ACC shall hold an informal hearing to arbitrate the resolution of the dispute. The informal hearing shall be governed by the following rules:

    a. Each party may be represented by legal counsel, if desired;
    b. All such informal hearings may be recorded or held in the presence of a stenographer;
    c. All parties will have the opportunity to present written or oral evidentiary material to support the positions of the individual parties; and
    d. All parties and the ACC's representative shall be given an opportunity for cross-examination of the various parties.

    The ACC's representative will render a written decision to all parties within five (5) business days after the date of the informal hearing. Such written decision of the ACC's representative is not binding on any of the parties and the parties will still have the right to make a formal complaint to the ACC.

3. The Company may implement normal termination procedures if the Customer fails to pay all bills rendered during the resolution of the dispute by the ACC.

4. The Company shall maintain a record of written statements of dissatisfaction and their resolution for a minimum of one (1) year and make such records available for ACC inspection.

D. Notice by Company of Responsible Officer or Agent

1. The Company shall file with the ACC a written statement containing the name, business address and telephone numbers (office and mobile) of at least one officer, agent or employee responsible for the general management of its operations as a Company in Arizona.

2. The Company shall give notice, by filing a written statement with the ACC, of any change in the information required herein within five (5) days from the date of any such change.

SECTION NO. 13
BUDGET BILLING PAYMENT PLAN

A. The Company may, at its option, offer its Customers Budget Billing Payment Plan ("Plan") for payment of charges for gas service.

B. The Company will develop, upon Customer request, an estimate of the Customer's levelized billing for a twelve (12) month period based on:

1. The Customer's actual consumption history at the service location, which may be adjusted for weather or other known variations. If sufficient history is not available, then an estimate will be prepared based on other similar service locations and Customer's anticipated load requirements; and

2. The applicable Pricing Plan, the estimated gas costs for the Plan year, and applicable taxes.

C. The Company shall provide the Customer with a concise explanation of how the levelized billing estimate was developed, the impact of levelized billing on a Customer's monthly bill, and the Company's right to adjust the Customer's billing for any variation between the Company's estimated billing and actual billing.

D. The Plan's monthly payment shall be determined as follows: Settlement month will be the Customer's anniversary date, twelve (12) months from the time the Customer is set up on the Budget Billing Payment Plan. The Company reserves the right to adjust the remaining monthly Plan semi-annually to reduce the likelihood of an excessive debt or credit balance in rates due to dramatic PGA increases or PGA surcharges.

1. The Company reserves the right to adjust the remaining monthly Plan payments of any Customer at any time if the Company's estimate of the Customer's usage and/or cost varies significantly from the Customer's actual usage and/or cost. Such review may also be initiated by the Customer. Any change resulting from such a review will be effective on a subsequent bill and no further notice is required.

2. The Customer shall continue to pay the monthly Plan payment amount each month, notwithstanding the current gas service charge shown on the bill.

3. Any other charges incurred by the Customer shall be paid monthly when due in addition to the monthly Plan payment.

4. Interest will not be charged to the Customer on accrued debit balances nor paid by the Company on accrued credit balances.

5. Any amount due the Company will be settled and paid at the time a Customer, for any reason, ceases to be a participant in the Plan. If an amount due to the Customer exceeds fifty dollars ($50.00), the Customer has the option to receive a bill credit or a refund; otherwise the credit will remain as a bill credit.

SECTION NO. 13
BUDGET BILLING PAYMENT PLAN
(continued)

6. Any Customer's participation in the Plan may be discontinued by the Company if the monthly Plan payment has not been paid on or before the billing date of the next monthly Plan payment.

7. If a Customer in the Plan shall cease, for any reason, to participate in the Plan, then the Company may refuse that Customer's re-entry in the Plan for six (6) months.

8. For those Customers being billed under the Plan, the Company shall show, at a minimum, the following information on the Customer's monthly bill:

   a. Actual consumption;

   b. Amount due for actual consumption;

   c. Levelized billing amount due; and

   d. Accumulated variation in actual versus levelized billing amount.

SECTION NO. 14
CURTAILMENT PLAN

A. The Company shall use reasonable diligence in its operations to render continuous service to all its Customers other than those Customers served under Pricing Plans expressly permitting interruptions of service for peak shaving purposes. If for any reason, however, the Company is unable to supply the demand for gas in any one or more of its systems, interruptions or curtailments of service shall be made in accordance with the provisions of this section. The Company shall not be liable for damages because of the operation of this section.

B. Applicability

1. The order of curtailment shall be in inverse order of the curtailment priorities set forth in Subsection C below.

2. Curtailment priorities shall apply to both sales and transportation Customers.

3. Customers being served under a discounted transportation or sales rate schedule shall be curtailed first. Customers paying the least will be curtailed first within an affected priority.

4. Each priority shall be curtailed in full before the next priority in order is curtailed.

5. When Priority 1 Customers would be curtailed due to system supply failure (either upstream capacity or supply failure), the Company is authorized to "preempt" deliveries of lower priority transportation Customers' gas and divert such supplies to the otherwise affected Priority 1 Customers. Affected transportation Customers will be curtailed to the same extent as sales Customers of the same priority. Such transportation Customers will be compensated for the preemption of their gas supply by either crediting the Customer's account with a like quantity of gas for use on a subsequent gas day, or by providing a cash payment or credit to the Customer's bill at the cost of gas per unit paid by the Customer. If the gas supply of an alternate fuel-capable transportation Customer is preempted according to this provision, the Company shall provide additional compensation to such Customer for the incremental cost of using the alternate fuel, (the difference between the actual cost of using the alternate fuel and the actual cost of gas paid by the Customer for the preempted gas). Such credit shall be applied to the Company's next scheduled billing after the Customer has furnished adequate proof to the Company concerning alternate fuel costs, replacement volumes, and gas costs.

6. The installation of a cogeneration facility shall not affect the underlying end-use priority of the establishment.

7. Natural gas utilized as compressed natural gas for vehicle fuel shall be classified as a commercial end-use.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

8. Application of curtailment priorities will normally be done on a scheduled basis as part of the daily gas requirement nomination and confirmation routine. Operational emergency curtailment will conform to these priorities to the extent possible and practical.

9. A transportation Customer may be curtailed to the level of actual supply scheduled for that Customer, regardless of end-use priority.

C. Priorities

Priority 1: Residential, small commercial (less than five hundred (500) therms on a peak day), schools, hospitals, police protection, fire protection, sanitation facility, correctional facility, and emergency situation uses.

Priority 2A: Essential agricultural uses as certified by the Secretary of Agriculture.

Priority 2B: Essential industrial process and feedstock uses.

Priority 2C: Large Commercial (five hundred (500) therms or more on a peak day) and storage injection requirements, industrial requirements for plant protection, feedstock, process, ignition and flame stabilization needs not specified in Priority 2B.

Priority 3A: Industrial requirements not specified in Priorities 2, 4, and 5, of less than one thousand (1,000) therms on a peak day.

Priority 3B: All industrial requirements not specified in Priorities 2, 3A, 4, and 5.

Priority 4: Industrial requirements for boiler fuel use at less than thirty thousand (30,000) therms per peak day, but more than fifteen thousand (15,000) therms per peak day, where alternate fuel capabilities can meet such requirements.

Priority 5: Industrial requirements for large volume (thirty thousand (30,000) therms per peak day or more) boiler fuel use where alternate fuel capabilities can meet such requirements.

D. In the event of isolated incidents in order to avoid hazards and protect the public, the Company may temporarily interrupt service to certain Customers without regard to priority or any other Customer classification.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

E. Definitions

1. "Alternate Fuel Capability" – A situation where an alternate fuel can be utilized whether or not the facilities for such use have actually been installed.

2. "Correctional Facility Uses" – A facility, the primary function of which is to house, confine, or otherwise limit the activities of a person who has been assigned to such facilities as punishment by a court of law.

3. "Essential Agricultural Use" – Any use of natural gas which is certified by the Secretary of Agriculture as an "essential agricultural use.

4. "Essential Industrial Process and Feedstock Uses" – Any use of natural gas by an industrial Customer as process gas, or as a feedstock, or gas used for human comfort to protect health and hygiene in an industrial installation.

5. "Feedstock Gas" – Natural gas use for which alternate fuels are not technically feasible, such as in applications requiring precise temperature controls and precise flame characteristics. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

6. "Fire Protection Uses" – Natural gas used by and for the benefit of fire fighting agencies in the performance of their duties.

7. "Flame Stabilization Gas" – Natural gas which is burned by igniters, main gas burners, or warm-up burners for the purpose of maintaining stable combustion of an alternate fuel.

8. "Hospital" – A facility, the primary function of which is delivering medical care to patients who remain at the facility (facility includes nursing and convalescent homes). Outpatient clinics or doctors' offices are not included in this definition.

9. "Ignition Gas" – Natural gas supplied to gas igniters in boilers to light main burners, whether the main burners are operated by gas, oil, or coal.

10. "Industrial Boiler Fuel" – Natural gas used in a boiler as a fuel for the generation of steam or electricity.

11. "Industrial Use" – Natural gas used primarily in a process which creates or changes raw or unfinished materials into another form or product, including electric power generation.

12. "Peak Day" – Maximum daily Customer use as determined by the best practical method available.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

13. "Plant Protection Gas" – Minimum natural gas volumes required to prevent physical harm to the plant facilities or danger to plant personnel when such protection cannot be afforded through the use of an alternate fuel. This includes the protection of such material in process as would otherwise be destroyed, but shall not include deliveries required to maintain plant production. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

14. "Police Protection Uses" – Natural gas used by law enforcement agencies in the performance of their duties.

15. "Process Gas" – Natural gas use for which alternate fuels are not technically feasible, such as in applications requiring precise temperature controls and precise flame characteristics. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

16. "Sanitation Facility Uses" – Natural gas use in a facility where natural gas is used to a) dispose of refuse, or b) protect and maintain the general sanitation requirements of the community at large.

17. "School" – A facility, the primary function of which is to provide instruction to regularly enrolled students in attendance at such facility. Facilities used for both educational and non-educational activities are not included under this definition unless the latter activities are merely incidental to the provision of instruction.

18. "Small Commercial Establishment" – Any establishment (including institutions and local, state, and federal government agencies) engaged primarily in the sale of goods or services where natural gas is used:

    a. in amounts of less than fifty (50) MCF on a peak day; and

    b. for purposes other than those involving manufacturing or electric power generation.

19. "Storage Injection Gas" – Natural gas injected by a distributor into storage for later use.

SECTION NO. 15
RATES AND UNIT MEASUREMENT

A. The rates and charges for gas service shall be those of the Company legally in effect and on file with the ACC.

B. All rates set forth in the Company's Pricing Plans are stated in therms. Unless otherwise provided by special contract, the number of therms delivered to any Customer shall be determined by measuring the volume of gas passing through that Customer's meter during the month to the nearest one hundred (100) cubic feet and applying the procedures of Section 8.H of these Rules and Regulations.

C. The unit of volume for measurement of gas sold shall be one (1) Cubic Foot of gas, as defined in Section 2, Subsection A.13 of these Rules and Regulations. The volume of gas measured shall be rounded to the nearest one hundred (100) cubic feet for any given period.

D. The atmospheric pressure will be the standard atmospheric pressure for the location.

E. The standard serving pressure shall be seven (7) inches of water pressure (four (4) ounces per square inch gauge) above the atmospheric pressure.

F. The standard temperature of sixty (60) degrees Fahrenheit will be used for volume determination unless stated otherwise under special contract. The Company shall retain the right, but shall not be obligated, to install temperature recording or compensating equipment as part of the measuring facilities. When such temperature recording equipment is used, the arithmetic average temperature of the gas each day, during periods of flow only, shall be used in computing the quantity of gas delivered by that day.

G. The Company, at its own option, may elect to serve a Customer at a pressure higher than the standard serving pressure. The Company shall correct such volume to Standard Conditions by the use of compensating equipment or the use of a factor. The Company retains the right to determine the method used for applying such correction. The factor used to correct the measured volume shall be in accordance with American Gas Association Report 3.

H. The therm conversion factor shall be determined each month and shall be the product of the conversion factor and the most recent heating value content available using the weighted average delivered pressure by office. The weighted average delivered pressure is derived monthly using the delivered pressure for each town code served which is reflective of each town code's elevation, weighted by the sales distribution among assigned gas distribution systems within each respective office. Further explained in Section 8.H. of these Rules and Regulations.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN

A. General Plan

The Company will annually sample groups of meters to determine the continuing accuracy and performance of the group. Certain safe and proper standards are defined, and meters will remain in service as long as they meet these standards. This program will allow the Company to obtain all the useful service available from a meter until the meter no longer meets prescribed standards. At that time, then it is proper for the meter to be removed, tested, repaired, or retired.

This procedure is for the purpose of testing and controlling the performance of small gas meters that are two hundred fifty (250) CFH or less. The program will identify and remove meters that do not meet the standards of performance described in Subsection D below, and identify and retain in service meters that do meet or exceed the stated standards. Meters are classified into groups, samples of each group are tested annually, and groups are removed from service when they do not meet performance standards.

B. Meter Groups

1. *Meters are segregated into groups on the following basis:*

   a. Year last repaired or purchased;

   b. Manufacturer;

   c. Diaphragm type (leather or synthetic), when available; and

   d. Geographic district.

2. For meters repaired or purchased in a given year, the groups are established at the beginning of the next year. When a new group being established is found to contain less than one thousand (1,000) meters, this group may be combined with another group having meters of the same or similar operating characteristics. An existing group may be divided into two or more groups, if experience characteristics of part of the group are sufficiently different from the remainder of the group to warrant separate sampling of the parts.

C. Sampling

A representative random sample is selected from each group of meters. The samples are used in determining the performance of each group of meters each year. If the initial order for meter removals does not produce an adequate sample, additional meters are drawn on a random basis. These meters are combined with the original sample for determining acceptability of the group. Samples are taken annually from all groups that have been in service for ten years or longer.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN
(continued)

D. Performance Standard

The criteria for acceptability for a group to remain in service are:

1. No more than ten percent (10%) of the meters tested in the group are more than three percent (3%) fast.

2. At least eighty percent (80%) of the meters tested in the group are within +/- three percent (3%) of zero error. This results in a condition wherein a minimum of ninety percent (90%) of the meters remaining in service are either within +/- three percent (3%) or are more than three percent (3%) slow and in the Customer's favor.

E. Records

The test results for each group are kept in appropriate records that indicate the number of meters in the sample versus the test results, expressed as a percent.

F. Removal of Groups

1. A test result falling on or above the prescribed standards is satisfactory and the groups will remain in service.

2. A test falling below the prescribed standards is not satisfactory and the group will be removed from service.

3. The Company, for its convenience, may remove a group (or part of a group) even though the group meets the requirements for remaining in service.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN
(continued)

G. Annual Reports

A report of the meter performance control program will be filed annually with the ACC, which will contain the following:

1. A description of each group, showing its identification, size and composition;

2. A list of the total number of meters tested, at Company initiative or upon Customer request;

3. A detailed list of the performance results of each group, showing the number of meters in the group, the number of meters removed during the year, the number of meters not tested (dead, non-registering, damaged, etc.), the number or meters tested, the number of meters slow - minus three percent (-3%), the number of meters accurate, the percent of meters accurate, the number of meters fast - plus three percent (+3%), and the percent of meters fast;

4. A summary of results for each year of service; and

5. A summary or the overall results.

SECTION 17
STATEMENT OF ADDITIONAL CHARGES

A.	Trip Charge:	
	1. Service Transfer	$20.00
	2. Collection Fee	$20.00
	3. Customer-Requested Meter Reread	$20.00
	4. Multiple Attempts to Connect	$20.00
B.	Service Establishment, Re-establishment, or Reconnection	
	During Regular Business Hours	$35.00
	After Regular Business Hours (same day request scheduled)	$50.00
C.	Special Call Out (Minimum one (1) hour)	
	Per hour	$70.00
D.	Customer-Requested Meter Test	$90.00
E.	NSF Check	$10.00
F.	Late Payment Finance Charge	1.5%
G.	Interest on Customer Deposits	One-year Treasury Constant Maturities rate

Regular Business Hours are defined as non-holiday weekdays from 8:30 a.m. to 4:30 p.m.

EXHIBIT

GAS-1B

REDLINED VERSION

TABLE OF CONTENTS

SECTION NO. 1
APPLICABILITY OF RULES AND REGULATIONS AND DESCRIPTION OF SERVICE

A. Company is a gas utility operating within portions of the state of Arizona. The Company will provide service to any person, institution or business located within its service area in accordance with the provisions of its Pricing Plans and the terms and conditions of these Rules and Regulations.

B. All gas delivered to any Customer is for the sole use of such Customer on that Customer's premises only. Gas delivered by the Company shall not be redelivered or resold, or the use thereof by others permitted unless otherwise expressly agreed to in writing by the Company. However, those Customers purchasing gas for redistribution to the Customer's own tenants (only on the Customer's premises) may separately meter each tenant distribution point for the purpose of prorating the Customer's actual purchase price of gas delivered among the various tenants on a per unit basis.

C. These Rules and Regulations shall apply to all gas service furnished by the Company to its Customers.

D. These Rules and Regulations are part of the Company's Pricing Plans on file with and duly approved by, the Arizona Corporation Commission. These Rules and Regulations shall remain in effect until modified, amended, or deleted by order of the ACC. No employee, agent or representative of the Company is authorized to modify the Company rules.

E. These Rules and Regulations shall be applied uniformly to all similarly situated Customers.

F. In case of any conflict between these Rules and Regulations and the ACC's rules, these Rules and Regulations shall apply.

G. Whenever the Company and an Applicant or a Customer are unable to agree on the terms and conditions under which such Applicant or Customer is to be served, or are unable to agree on the proper interpretation of the these Rules and Regulations, either party may request assistance from the Consumer Services Section of the Utilities Division of the ACC. The Applicant or Customer also has the option to file an application with the ACC for a proper order, after notice and hearing.

H. The Company's supplying gas service to the Customer and the acceptance thereof by the Customer shall be deemed to constitute an agreement by and between the Company and the Customer for delivery, acceptance of and payment for gas service under the Company's Rules and Regulations and applicable Pricing Plans.

SECTION NO. 2
DEFINITIONS

~~a.~~A. In these Rules and Regulations, the following definitions shall apply unless the context requires otherwise:

1. "Advance in Aid of Construction" or "Advance" – Funds provided to the Company by an Applicant under the terms of a main extension agreement, the value of which may be refundable.

2. "Applicant" – A person requesting the Company to supply gas service.

3. "Application" – A request to the Company for gas service, as distinguished from any inquiry as to the availability or charges for such service.

4. "Arizona Corporation Commission" ("ACC") – The regulatory body established by Article XV of the Arizona Constitution.

5. "Billing Month" – The time interval between any two (2) regular readings of the Company's meters at approximately thirty (30) day intervals.

6. "Billing Period" – The time period between two (2) consecutive meter readings that are taken for billing purposes.

7. "British Thermal Unit" ("BTU") – The amount of heat required to raise the temperature of one (1) pound of water one (1) degree Fahrenheit, at Standard Conditions.

8. "CCF" – One hundred (100) cubic feet.

9. "CFH" – Cubic feet per hour.

10. "Commodity Charge" – The unit cost for billed usage as set forth in the Company's Pricing Plans.

11. "Company" – UNS Gas, Inc.

12. "Contributions in Aid of Construction" or "Contribution" – Funds provided to the Company by the Applicant under the terms of a main extension agreement and/or service connection tariff, the value of which are not refundable.

SECTION NO. 2
DEFINITIONS
(continued)

13. "Cubic Foot" –

  a. In cases where gas is supplied and metered to Customers at Standard Delivery Pressure, a cubic foot of gas is the volume of gas, which at the temperature and pressure existing in the meter occupies one (1) cubic foot.

  b. Regardless of the pressure supplied to the Customer, the volume of gas metered will be converted to the volume which the gas would occupy at Standard Conditions.

  c. The standard cubic foot of gas used for testing the gas for heating value shall be that volume of gas which, when saturated with water vapor and at a temperature of sixty (60) degrees Fahrenheit and under a pressure equivalent to that of thirty (30) inches of mercury (mercury at thirty-two (32) degrees Fahrenheit and under standard gravity), occupies one (1) cubic foot.

14. "Curtailment Priority" – The order in which gas service is to be curtailed to various classifications of Customers, as set forth in the Company's Pricing Plans.

15. "Customer" – The person in whose name service is rendered, as evidenced by the signature on the application or contract for that service, or by the receipt and/or payment of bills regularly issued in the person's name regardless of the identity of the actual user of the service.

16. "Customer Charge" – The amount the Customer must pay the Company for the availability of gas service, excluding any gas used, as specified, in the Company's Pricing Plans.

17. "Customer Service Complaint" - Written complaint received from a Customer, or through the ACC on behalf of a Customer.

18. "Day" – Calendar day.

19. "Decatherm" – Ten (10) therms or one million (1,000,000) BTUs.

20. "Distribution Main" – A gas line of the Company from which service lines may be extended to Customers.

21. "Elderly" – A person who is sixty-two (62) years of age or older.

22. "Excess Flow Valve" ("EFV") – A device that is designed to restrict the flow of gas in a single family residence natural gas service line by automatically closing in the event that it is broken downstream of the EFV, completely cut, torn apart or otherwise separated, usually caused by some type of excavation or digging activity.

SECTION NO. 2
DEFINITIONS
(continued)

~~21.~~23. "Handicapped" – A person with a physical or mental condition which substantially contributes to the person's inability to manage his or her own resources, carry out activities of daily living, or protect themselves from neglect or hazardous situations without assistance from others.

~~22.~~24. "Illness" – A medical ailment or sickness for which a residential Customer obtains a verifiable document from a licensed medical physician stating the nature of the illness and that discontinuance of service would be especially dangerous to the Customer's health.

~~23.~~25. "Inability to Pay" – Circumstances where a residential Customer:

~~1.~~a. Is not gainfully employed and is unable to pay; or

~~2.~~b. Qualifies for government welfare assistance, but has not begun to receive assistance on the date that the bill is received and can obtain verification from the government welfare agency; or

~~3.~~c. Has an annual income below the published federal poverty level and can produce evidence of this; and

~~4.~~d. Signs a declaration verifying that the Customer meets one of the above criteria and is either ~~a senior citizen~~elderly, handicapped, or suffers from an illness.

~~24.~~26. "Incremental Contribution Study" ("ICS") – The study described in Section 7.B.4 of these Rules and Regulations.

~~25.~~27. "Interruptible Gas Service" – Gas service that is subject to interruption or curtailment as specified in the Company's Pricing Plans.

~~26.~~28. "Law" – Any rule or requirement established and enforced by government authorities.

~~27.~~29. "Main Extension" – The lines and equipment necessary to extend the existing gas distribution system to provide service to additional Customers.

~~28.~~30. "Master Meter" – An instrument for measuring or recording the flow of gas at a single location from which said gas is transported through a piping system to tenants or occupants for their individual consumption.

~~29.~~31. "MCF" – One thousand (1,000) cubic feet.

~~30.~~32. "Meter" – The instrument for measuring and indicating or recording the volume of gas that has passed through it.

~~31.~~33. "Meter Set Assembly" ("MSA") – All gas components downstream of the Customer's inlet service valve to the Customer's p~~P~~oint of d~~D~~elivery.

SECTION NO. 2
DEFINITIONS
(continued)

~~32.~~34. "Minimum Charge" – The amount the Customer must pay for the availability of gas service and may include an amount of usage, as specified in the Company's Pricing Plans.

~~33.~~35. "Permanent Customer" – A Customer who is a tenant or owner of a service location who applies for and receives gas service.

~~34.~~36. "Permanent Service" – Service which, in the opinion of the Company, is of a permanent and established character. The use of gas may be continuous, intermittent, or seasonal in nature.

~~35.~~37. "Person" – Any individual, partnership, corporation, governmental agency, or other organization operating as a single entity.

~~36.~~38. "Point of Delivery" – The ~~P~~point of ~~D~~delivery for all gas delivered to any Customer shall be at the point of interconnection between the facilities of the Company and those of such Customer.

~~37.~~39. "Premises" – All of the real property and apparatus employed in a single enterprise or residence on an integral parcel of land undivided by public streets, alleys or railways.

~~38.~~40. "Pricing Plan" – A part of the Company's Tariffs which sets forth the rates and charges related to specific categories of Customers, and related terms and conditions.

~~39.~~41. "Residential Subdivision" – Any tract of land which has been divided into four or more contiguous lots for use in the construction of residential buildings or permanent mobile homes for either single or multiple occupancy.

~~40.~~42. "Residential Use" – Service to Customers using gas for domestic purposes such as space heating, air conditioning, water heating, cooking, clothes drying, and other residential uses and includes use in apartment buildings, mobile home parks, and other multi-unit residential buildings.

~~41.~~43. "Restricted Apparatus" – An apparatus prohibited by the ACC, another governmental agency, or the Company.

~~42.~~44. "Rules and Regulations" or "Company Rules" – These Rules and Regulations, which are part of the Company's Tariffs and Pricing Plans.

SECTION NO. 2
DEFINITIONS
(continued)

~~43. "Senior Citizen" – A person who is sixty-two (62) years of age or older.~~

~~44.~~45. "Service Areas" – The territory in which the Company has been granted a certificate of convenience and necessity and is authorized by the ACC to provide gas service.

~~45.~~46. "Service Establishment Charge" – A charge as specified in the Company's Pricing Plans which covers the cost of establishing a new account.

~~46.~~47. "Service Line" – A gas pipe that transports gas from a common source or supply (normally a distribution main) to the Customer's p~~P~~oint of ~~D~~delivery.

~~47.~~48. "Service Reconnection Charge" – A charge specified in the Company's Pricing Plans that must be paid by the Customer prior to re-establishment of gas service each time the gas is disconnected for nonpayment, or for failure to comply with the Company's Pricing Plans. In addition to the Service Reconnection Charge, such returning Customer shall pay the sum of the applicable monthly Customer Charges which would have accrued had the Customer not been disconnected for non-payment or for failure to comply with the Company's Pricing Plans within the preceding twelve (12) month period.

~~48.~~49. "Service Re-establishment Charge" – A charge specified in the Company's Pricing Plans for the re-establishment of service at the same location where the same Customer had ordered a service disconnect within the preceding twelve (12) month period. In addition to the Service Re-establishment Charge, such returning Customer shall pay the sum of the applicable monthly Customer Charges which would have accrued had the Customer not ordered the disconnect.

50. "Service Transfer" – Transfer of service from one Customer to another, when the meter is not turned off.

~~49.~~51. "Single Family Dwelling" – A house, an apartment, or a mobile home permanently affixed to a lot, or any other permanent residential unit which is used as permanent home.

52. "Special Call-Out" – When Company personal is on-call and is called in from home at the request of the Customer in order to provide service.

~~50.~~53. "Standard Conditions" – 14.73 pounds per square inch absolute at sixty (60) degrees Fahrenheit.

~~51.~~54. "Standard Delivery Pressure" – 0.25 pounds per square inch gauge at the meter or ~~P~~point of ~~D~~delivery.

~~52.~~55. "Tampering" – A situation where a meter has been illegally altered. Common examples are meter bypassing and other unauthorized connections. Tampering also includes any action defined as "tampering" under A.R.S. § 40-491(4).

~~53.~~56. "Tariffs" – The documents filed with the ACC that list the services offered by the Company and set forth the terms and conditions and a schedule of the rates and charges for those services and products. These Rules and Regulations are part of the Company's Tariffs. The Company's Pricing Plans are also part of the Company's Tariffs.

SECTION NO. 2
DEFINITIONS
(continued)

~~54.~~57. "Temporary Service" – Service to premises or enterprises that are temporary in character, or where it is known in advance that the service will be of limited duration. Service that, in the opinion of the Company, is for operations of speculative character is also considered temporary service.

~~SECTION NO. 2~~
~~DEFINITIONS~~
~~(continued)~~

~~55.~~58. "Therm" – A unit of heating value, equivalent to one hundred thousand (100,000) BTUs.

~~56.~~59. "Third Party Notice" – A notice sent to a person willing to receive notification of the pending discontinuance of service to a Customer of record, in order to make arrangements on behalf of said Customer that are satisfactory to the Company.

~~57.~~60. "Transmission Line" - A gas line for delivering natural gas that operates at a hoop stress of twenty percent (20%) or more of Specified Minimum Yield Strength ("SMYS"), as defined in CFR 49, Part 192 or that transports gas to a single large volume Customer such as a distribution center, factory, power plant or institutional user.

61. "Trip Charge" – Charges set forth in the Company's Statement of Additional Charges for services such as a Service Transfer, Collection Fee, Customer-Requested Meter Re-read, or Multiple Attempts to Connect.

~~58.~~62. "Unauthorized" – Use of gas services that is not in accordance with ACC rules, the Company's Rules and Regulations, or the Company's Pricing Plans.

~~59.~~63. "Weather Especially Dangerous to Health" – That period of time, commencing with the scheduled termination date, when the local weather forecast as predicted by the National Oceanic and Atmospheric Administration, indicates that the temperature will not exceed thirty-two (32) degrees Fahrenheit for the next day's forecast. The ACC may determine that other weather conditions are especially dangerous to health as the need arises.

~~60. "Working Hours" – The period of time during which the Company's offices are open for business.~~

~~61.~~64. "Yardline" – A gas pipe that transports gas from the Customer's ~~P~~point of ~~D~~delivery to the point of entry into the Customer's residence or other place of consumption.

SECTION NO. 3
ESTABLISHMENT OF SERVICE

A. Information From Applicants

~~d.~~1. The Company may obtain the following minimum information from each Applicant:

a. Name or names of Applicant(s);

b. Service address or location and telephone number;

c. Billing address or location and telephone number, if different than service address;

d. Address where service was provided previously;

e. Date Applicant will be ready for service;

f. Indication of whether premises have been supplied with gas service previously;

g. Purpose for which service is to be used;

h. Indication of whether Applicant is owner or tenant of or agent for, the premises;

i. Information concerning the gas usage and demand requirements of the Customer; and

j. Type and kind of life-support equipment, if any, used by the Customer.

~~e.~~2. The Company may require a new Applicant for service to appear at the Company's designated place of business to produce proof of identity and sign the Company's application form.

~~f.~~3. Where service is requested by two or more individuals, the Company shall have the right to collect the full amount owed to the Company from any one of the Applicants.

~~g.~~4. An Applicant for gas service to new construction or a new extension shall complete the following Company forms:

a. New Service Application Form

The Customer is responsible for completing and returning the Application form. Failure on the part of the Customer to provide a completed form shall be grounds for the Company to delay or refuse service. For the purpose of this Rule, the definition of new construction/extension is where there is a need to run a new service line or install new gas facilities to a property that has never had prior natural gas service.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

B. Deposits

1. The Company may require from any present or prospective Customer a security deposit to guarantee payment of all bills. This deposit may be retained by the Company until service is discontinued and all bills have been paid; except as provided in Subsection B.4 below. Upon proper application by the Customer, the Company shall then return said deposit, together with any unpaid interest accrued thereon from the date of commencement of service or the date of making the deposit, whichever is later. The Company shall be entitled to apply said deposit together with any unpaid interest accrued thereon, to any indebtedness for the same class of service owed to the Company for gas service furnished to the Customer making the deposit. When said deposit has been applied to any such indebtedness, the Customer's gas service may be discontinued until all such indebtedness of the Customer is paid and a like deposit is again made with the Company by the Customer. No interest shall accrue on any deposit after discontinuance of the service to which the deposit relates.

   The Company shall not require a deposit from a new Applicant for residential service if the Applicant is able to meet any of the following requirements:

   ~~A.~~a. The Applicant has had service of a comparable nature with the Company at another service location within the past two (2) years and was not delinquent in payment more than twice during the last twelve (12) consecutive months, or was not disconnected for nonpayment; or

   ~~B.~~b. The Applicant can produce a letter regarding credit or verification from a gas or electric utility which states that the Applicant has had service of a comparable nature with that utility at another service location within the past two (2) years and was not delinquent in payment more than twice during the last twelve (12) consecutive months, or was not disconnected for nonpayment; or

   ~~C.~~c. In lieu of a cash deposit, a new Applicant may provide a Letter of Guarantee from an existing Customer of the Company who is acceptable to the Company, a surety bond, or similar alternative acceptable to the Company, such as a Certificate of Deposit, as security for Company in the sum equal to the required deposit; or

   ~~D.~~d. If a credit check is offered by the Company, the Applicant authorizes a credit check and meets the standards established by the Company.

2. The Company may issue a non-assignable, non-negotiable receipt to the Applicant for the deposit. The inability of the Customer to produce such a receipt shall in no way impair the Customer's right to receive a refund of the deposit which is reflected on the Company's records.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

3. Cash deposits held by the Company twelve (12) months or longer shall earn interest at the established one-year Treasury Constant Maturities rates, effective on the first business day of each year, as published in the Federal Reserve website. No interest will be paid on deposits for which Customers have turned service on and off within the same calendar month. Such payment of interest shall be made during January of each year for Customers served by the Company for at least six (6) months and will cover all interest accrued up to the end of the preceding calendar year or on the date the deposit is returned to the Customer, pursuant to Subsection B.4 below. At the Company's option, the above payments may be made either by check or by credit on the monthly bill.

4. All deposits of residential or commercial Customers received and held by the Company shall be returned to the Customer by the Company (with interest, as provided by Subsection B.3 above), at such time as the affected Customers shall have maintained for a period of twelve (12) consecutive months (from and after the date when the deposit was made), their accounts with the Company. The Customer's accounts shall have been maintained in such a manner that they shall not have been delinquent in the payment of more than two (2) bills during such twelve (12) month period, whether at the same address or at a different address, nor have had their gas service, whether at the same address or at a different address, discontinued, in accordance with these Rules and Regulations, for failure to pay for gas service previously rendered.

5. The Company may require a Customer to establish or reestablish a deposit if the Customer became delinquent in the payment of three (3) or more bills within a twelve (12) consecutive month period, or has been disconnected from service during the last twelve (12) months.

6. The Company may review the Customer's usage after service has been connected and adjust the deposit amount based upon the Customer's actual usage.

7. A separate deposit may be required for each meter installed.

8. Residential Customer deposits shall not exceed two (2) times that Customer's estimated average monthly bill. Non-residential Customer deposits shall not exceed two and one-half (2.5) times that Customer's maximum estimated monthly bill. If actual usage history is available, then that usage, adjusted for normal weather, will be the basis for the estimate.

9. The posting of a deposit shall not preclude the Company from terminating service when the termination is due to the Customer's failure to perform any obligation under the agreement for service or any of these Rules and Regulations.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

C. Grounds For Refusal Of Service

The Company may refuse to establish service if any of the following conditions exist:

1. The Applicant has an outstanding amount due for the same class of gas service with the Company and the Applicant is unwilling to make arrangements with the Company for payment; or

2. A condition exists which, in the Company's judgment, is unsafe or hazardous to the Applicant, the general population, or the Company's personnel or facilities; or

3. The Applicant refuses to provide the Company with a deposit when the Customer has failed to meet the credit criteria for waiver of deposit requirements; or

4. Customer is known to be in violation of the Company's Pricing Plans; or

5. Customer fails to furnish such funds, service, equipment, and/or rights-of-way necessary to serve the Customer and which have been specified by the Company as a condition for providing service; or

6. Applicant falsifies his or her identity for the purpose of obtaining service.

D. Service Establishments, Re-establishment or Reconnection Charge

1. For the purpose of this Rule, the definition of service establishment is where the Customer's facilities are ready and acceptable to the Company, the Applicant has obtained all required permits and/or inspections indicating that the Applicant's facilities comply with local construction safety and governmental standards and regulations, and the Company needs only to install a meter, read a meter, or turn the service on.

2. The Company will charge for service establishment, re-establishment, or reconnection other than service transfers under usual operating procedures, during regular business hours as set forth in the Statement of Additional Charges.

~~2.~~3. Should service be established, re-established, or reconnected during a period after~~outside of~~~~other than~~ the Company's regular ~~working~~business hours, at the Customer's request, the Customer ~~may~~will be required to pay an after-hour charge for the service connection as set forth in the Statement of Additional Charges. Where the Company's scheduling will not permit service establishment on the same day as requested, the Customer can elect to pay the after-hour charge for establishment that day, or his service will be established on the next available business~~working~~ day. Even so, a Customer's request to have the Company establish service after-hours is subject to the Company having staff available; there is no guarantee that the Company will have the staffing available for service establishment, re-establishment or reconnection after business hours.

SECTION NO. 3
ESTABLISHMENT OF SERVICE
(continued)

4. For service re-establishments at the same location where the same Customer has ordered a service disconnect within the preceding twelve (12) month period, such returning Customer in addition to the service re-establishment charge, shall pay the sum of the applicable monthly Customer Charges that would have accrued had the Customer not ordered the disconnect.

5. For service reconnections when due to the behavior of the Customer (*i.e.*, nonpayment, failure to comply with the Company's Pricing Plans) it has been necessary for the Company to discontinue service utilizing other than usual operating procedures prior to reconnection of gas service each time the gas is disconnected, in addition to the service reconnection charge set forth in the Statement of Additional Charges, the Customer shall pay the sum of the applicable monthly Customer Charges that would have accrued had the Customer not been disconnected within the preceding twelve (12) month period.

6. The Company will charge for the establishment or re-establishment for service transfers only, as set forth in the Statement of Additional Charges.

7. When the Company has made more than one failed attempt to establish service due to the Customer's absence from home, facilities not being ready, or lack of access to the point of delivery, the Customer will be required to pay a multiple attempts to connect charge as set forth in the Statement of Additional Charges, in addition to the service establishment charge.

~~SECTION NO. 3~~
~~ESTABLISHMENT OF SERVICE~~
~~(continued)~~

E. Temporary Service

1. Applicants for temporary service may be required to pay to the Company, in advance of service establishment, the estimated cost of installing and removing the facilities necessary for furnishing the desired service.

2. Where the duration of service is to be less than one (1) month, the Applicant may also be required to advance a sum of money equal to the estimated bill for service.

3. Where the duration of service is to exceed one (1) month, the Applicant may also be required to meet the deposit requirements of the Company, as outlined in Subsection B.1 above.

4. If at any time during the term of the agreement for service the character of a temporary Customer's operations changes so that, in the opinion of the Company, the Customer is classified as permanent, the terms of the Company's main extension rules shall apply.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS

~~1.~~A. Information for Residential Customers

1. The Company shall make available upon Customer request, no later than sixty (60) days from the date of request, a concise summary of the rate schedule applied for by such Customer. The summary shall include the following:

   a. Monthly minimum or Customer charge, identifying the amount of the charge and the specific amount of usage included in the minimum charge, where applicable;

   b. Rate blocks, where applicable; and

   c. Any adjustment factor(s) and method of calculation.

2. Upon application or upon request, the Applicant or the Customer shall elect the applicable Pricing Plan best suited to their requirements. The Company may assist in making such election, but shall not be held responsible for notifying the Customer of the most favorable Pricing Plan and shall not be required to refund the difference in charges under different Pricing Plans.

   However, new non-residential Customers whose projected consumption is near the threshold between "large" and "small" Pricing Plans, may elect the "small" rate, subject to refund, if their usage qualifies them as a "large" Customer. An existing non-residential Customer will be moved to the "large" rate, or once moved, back to the "small" rate, only if their consumption history or a clear permanent change in consumption makes it clear the Customer will meet the volume requirements of one Pricing Plan.

   A review may be initiated by either the Company or the Customer. Any change of Pricing Plan, if appropriate, will be effective with the first bill issued seven (7) days after the initiation of the review. No adjustment of past billings due to Pricing Plan selection will be made to either the Company or the Customer, except for a new Customer who qualifies for the "large" Pricing Plan based on twelve (12) months of usage as set forth in this Rule.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS
(continued)

3. Upon Customer request, the Company shall make available to the Customer, a copy of the ACC's Rules and Regulations (Arizona Administrative Code, Title 14, Article 3 - Gas Utilities) concerning:

    a. Deposits;

    b. Termination of Service;

    c. Billing and Collection; and

    d. Complaint Handling.

4. The Company, upon Customer request, shall transmit a written statement of actual consumption by the Customer for each billing period during the prior twelve (12) months unless such data is not reasonably ascertainable.

5. The Company shall inform all new Customers of their rights to obtain the information specified above.

6. The Company shall notify each Customer of the following information, in writing, within ninety (90) days after the Customer first receives gas service at a particular location:

    a. The Company does not maintain the Customer's buried piping;

    b. If the Customer's buried piping is not maintained, it may be subject to the potential hazards of corrosion and leakage;

    c. Buried gas piping should be periodically inspected for leaks, periodically inspected for corrosion if the piping is metallic, and repaired if any unsafe condition is discovered;

    d. When excavating near buried gas piping, the piping must be located in advance, and the excavation done by hand;

    e. Plumbing contractors and heating contractors may assist in locating, inspecting, and repairing the Customer's buried piping; and

    f. In order to reduce damage by outside forces, the Company is a member of the statewide one call system in all areas in which the Company has underground natural gas piping.

SECTION NO. 4
MINIMUM CUSTOMER INFORMATION REQUIREMENTS
(continued)

~~2.~~B. Information Required Due to Changes in Rates and Charges

1. The Company shall ~~transmit~~send ~~to~~ affected Customers a concise summary of any changes in the Company's rates and charges significantly impacting those Customers.

2. This information shall be ~~transmitted~~sent to the affected Customer(s) within sixty (60) days of the effective date of the change in the Company's rates and charges.

SECTION NO. 5
MASTER METERING

A. Mobile Home Parks – New Construction/Expansion

1. The Company shall refuse service to all new construction and/or expansion of existing permanent residential mobile home parks unless the construction and/or expansion are individually metered by the Company. Main extensions and service line connections to serve such new construction or expansion shall be governed by the main extension and/or service line connection policies of these rules and regulations.

2. Permanent residential mobile home parks for the purpose of this rule shall mean mobile home parks where the average length of stay for an occupant is a minimum of six (6) months.

3. For the purpose of this rule, expansion means construction which has been started for additional permanent residential spaces after the effective date of this rule.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS

~~1.~~A. Priority and Timing of Service Establishments

1. After an Applicant has complied with the Company's application and deposit requirements and has been accepted for service by the Company, the Company shall schedule that Customer for service establishment.

2. Service establishment shall be scheduled for completion within five (5) ~~working~~ business days of the date the Customer has been accepted for service, except in those instances when the Customer requests service establishment beyond the five (5) ~~working~~ business day limitation.

3. When the Company has made arrangements to meet with a Customer for service establishment purposes and the Company or the Customer cannot make the appointment during the prearranged time, the Company shall reschedule the service establishment appointment to the satisfaction of both parties.

4. The Company shall schedule service establishment appointments within a maximum range of four (4) hours during normal ~~working~~ business hours, unless another time frame is mutually acceptable to the Company and the Customer.

5. Service establishments shall be made only by qualified service personnel of the Company or its authorized representatives.

6. For the purpose of this rule, service establishments can occur only when the Customer's facilities are ready and acceptable to the Company and the Company needs only to install, read the meter, or turn the service on.

7. ~~A fee for service establishment, reestablishment, or reconnection of service may be charged at a rate on file with and approved by the ACC.~~ Whenever ~~the~~an Applicant requests after-hours handling of his request, the Company shall charge a~~n additional~~ fee ~~as~~ set forth in the Statement of Additional Charges~~on file with and approved by the ACC~~ unless a special call out is required. If a special call out is required, the charge shall be for a minimum of one (1) hour at a rate set forth in the Statement of Additional Charges~~the Company's then prevailing after-hours rate~~ for the service work on the Customer's premises. Special handling of calls and the related charges shall be made only upon request of the Applicant. Even so, a Customer's request to have the Company establish service after-hours is subject to the Company having staff available; there is no guarantee that the Company will have the staffing available for service establishment, re-establishment or reconnection after regular business hours.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

~~2.~~B. Facilities

1. Customer Provided Facilities

   a. An Applicant for service shall be responsible for the safety and maintenance of all Customer piping from the ~~P~~point of ~~D~~delivery to the point of consumption.

   b. Meters shall be installed in a location suitable to the Company where the meters will be safe from street traffic, readily and safely accessible for reading, testing and inspection, and where such activities will cause the least interference and inconvenience to the Customer. The Customer shall provide, without cost to the Company and at a suitable and easily accessible location, sufficient and proper space for the installation of meters.

   c. Where the meter or service line location on the Customer's premises is changed at the request of the Customer or due to alterations on the Customer's premises, the Customer shall provide, and have installed at his expense, all Customer piping necessary for relocating the meter and the Company may make a charge for moving the meter and/or service line.

   d. On all newly-constructed Customer piping at the meter interconnection, the Customer will be required to install necessary piping and equipment before the meter is installed.

2. Company Provided Facilities

   a. The Company will install, at its own expense, the meter set assembly ("MSA") at a suitable location near the side wall of the Customer's building approximately three (3) feet or more from that front corner of the building nearest to the street in which the Company's distribution main is located. However, the Company, at its option, has the right to locate the meter at any location meeting the criteria of Subsection B.1.b of this section.

      The three (3) feet as noted above refers to the approximate location of the meter from the corner of the building that is nearest to the street in which the distribution main servicing that Customer is located. The gas service riser, service cock, regulator and meter are all above ground. The service from the Company's distribution main to the building is below ground.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

b. The Company or authorized representative will install the gas service line and make all connections of the gas service line from the distribution main to the service riser. The Company will in all cases be responsible for the cost of construction of the service line from the Company's distribution main to the Customer's property line for an amount not to exceed the allowable investment as calculated by the Incremental Contribution Study (see Section No. 7, Subsection B), with the Customer reimbursing the Company for the difference. The Customer will reimburse the Company for the gas service line on the Customer's property at a rate of ~~sixteen~~ twenty-two dollars and fifty cents~~dollars~~ ($~~16.00~~22.50) per foot. The Customer is responsible for ~~locating facilities on private property and~~ removal of landscaping prior to installation or be subject to applicable charges. For Customers who provide the trench for the service line on the Customer's property, Section No. 7, Subsection B.4~~5~~.d will apply and the Customer will reimburse the Company at a rate of ~~twelve~~ sixteen dollars and fifty cents ($~~12.00~~16.50) per foot ~~for the excess footage.~~. The Customer, at the Customer's own expense, shall furnish, install, and be responsible for all other pipe, fittings, connections, and appurtenances between the ~~P~~point of ~~D~~delivery and each point of consumption. The cost of installation, paid by the Applicant, shall be the average actual cost of installation, calculated and averaged annually by the Company.

c. No Customer-owned pipe shall be directly connected with the Company's distribution mains or services. No connection shall be made by the Customer between the facilities of the Company, including the meter, service cock and regulator and those of the Customer, nor shall any facilities of the Company be set, connected, disconnected, removed, repaired or altered except by the Company's representatives.

d. A single meter and a single ~~P~~point of ~~D~~delivery may be used to supply a group of buildings, such as those of a hospital or industrial establishment under single ownership or control. Such applications may fall under the Master Meter rule as defined in the Arizona Administrative Code.

e. The Company may decline service to mobile residences or portable or other temporary structures if the conditions do not afford adequate protection for the occupant(s) thereof, or the persons or property of others. In no event will gas service be permitted, if to the Company's knowledge, the Customer or the Customer's facilities fail to meet applicable requirements of law, of the State, or of any local code.

SECTION NO. 6
SERVICE LINES AND ESTABLISHMENTS
(continued)

3. Easements and Right-of-Way

Each Customer shall grant, at no cost to the Company, an adequate easement and right-of-way, satisfactory to the Company to ensure proper service connection. Failure on the part of the Customer to grant an adequate easement and right-of-way shall be grounds for the Company to refuse service.

4. Unauthorized work or facilities

When the Company discovers that a Customer or the Customer's Agent has performed work or has constructed facilities that has altered the installation of the Company's facilities to the point that work is necessary to restore the previously installed Company facilities to meet regulatory or Company requirements, the Company shall notify the Customer or the Customer's Agent and the Company shall take whatever actions are necessary to eliminate the hazard or violation at the Customer's expense.

5. Point of Delivery

The ~~P~~point of ~~D~~delivery for all gas delivered to any Customer shall be at the point of interconnection between the facilities of the Company and those of the Customer.

6. Excess Flow Valve Installation

In accordance with Title 49, Section 192.381 of the Code of Federal Regulations and requirements set forth in HR5782, the installation of an Excess Flow Valve ("EFV") shall be performed by the Company on each single family residence service line connected to its distribution system whether ~~if~~ the service line is installed or entirely replaced. ~~after June 1, 2008.~~

a. The Applicant shall provide the Company information concerning the gas usage and demand requirements. The EFV will be designed and constructed so that suitable gas capacity is available and satisfactory to the Company.

b. The Company will construct, own, operate, and maintain the EFV in connection with the service line installation.

c. Costs associated with the mandated installation of the EFV shall be paid by the Applicant as a nonrefundable Contribution in Aid of Construction ("CIAC").

    i. The cost of installation, paid by the Applicant, shall be the average actual cost of installation, calculated and averaged annually by the Company.

d. Where it is necessary to change or alter the EFV, due to a request or alteration of the Customer's premise by the Customer, the Customer shall reimburse the Company for all expenses in connection with upgrading or removing the EFV.

e. The Company shall pay for all costs associated with replacement or maintenance of the EFV in connection with a line replacement or maintenance project.

SECTION NO. 7
EXTENSION OF LINES

Extensions of gas distribution services and mains necessary to furnish permanent service to Applicants will be made in accordance with this rule.

A. General

The Company will construct, own, operate and maintain service line and distribution main extensions.

1. Gas service lines will be designed and installed so that suitable capacity from the Company's distribution main to a meter location on the property of the Applicant is satisfactory to the Company. If downstream usage changes or is altered by the Customer, the Customer may be responsible for costs to upgrade or enlarge the service line to accommodate additional capacity requirements.

2. Gas distribution main extensions will be only along public streets, roads, and highways, which the Company has legal right to occupy, and on public lands and private property across which rights-of-way, satisfactory to the Company, may be obtained.

3. All Company distribution mains and service lines shall be installed in accordance with all applicable Company standards.

B. Service and Main Extensions to Applicants for Service

General Policy – All service line and main line extension agreements are made on the basis of economic feasibility.

~~a.~~1. Facility Charge – If any Applicant fails to use natural gas for equipment stated in the application and used as the basis for estimating the allowable investment ~~(ICS)~~ within four (4) months of the completion of the main, the Company may bill the Applicant for the ~~I~~incremental ~~C~~cost allowed towards the extension of service. The Applicant shall pay within forty-five (45) days the charge as a non-refundable contribution towards the cost of extending service.

SECTION NO. 7
EXTENSION OF LINES
(continued)

~~b.~~2. At its option, the Company may require a performance bond or other surety guaranteeing bona fide operation of the facility for which the extension is requested, in accordance with Applicant's representation in the contract.

~~c.~~3. Master Meter Extensions – If the residential Customers are tenants in a fully improved master-metered mobile home park ("MMP") and the MMP is currently or was formerly served as a master-metered mobile home park, the allowable investment for the MMP will be calculated by the following Incremental Contribution Method and formula:

$$AI = (FR - CR) \times 5$$

where: AI = Allowable Investment

FR = The MMP's estimated future total annual revenue, assuming conversion to individual residential service, using the MMP's average park occupancy for the past two (2) years, less the Company's current average cost of purchased gas.

CR = The MMP's current total annual revenue, under the applicable schedule, averaged for the past two (2) years, less the Company's current average cost of purchased gas. If the MMP is not a current Customer of the Company, the CR will be determined on the basis of engineering estimates of occupancy and usage.

The Company will install that portion of each service in excess of the allowed investment subject to a nonrefundable contribution to be paid by the Applicant MMP prior to construction. In no event shall costs above the allowable investment be borne by the Company.

~~d.~~4. Incremental Contribution Method – Gas service line and main line extensions will be made by the Company at its expense for an amount not to exceed the ~~A~~allowable ~~I~~investment as calculated by an Incremental Contribution Study ("ICS").

~~1.~~a. Allowable investment shall mean a determination by the Company that the revenues less the incremental gas cost to serve the Applicant provides a rate of return on the Company's investment no greater than the weighed average cost of capital authorized by the ACC in the Company's most recent general rate case.

~~2.~~b. If the ICS has an allowable investment that is more than the cost of the main extension, then the excess amount may be applied to reduce the cost of service line installation up to the Customer's property line, except that it shall not be used to reduce the cost of excess flow valve installation which shall be paid by the customer.

SECTION NO. 7
EXTENSION OF LINES
(continued)

~~3.~~c. The Company, after conducting an ICS, may at its option, extend its facilities to Customers whose usage does not satisfy the definition of economic feasibility, but who otherwise are permanent Customers, provided the Customer pays a nonrefundable ~~advance~~contribution, necessary to make the extension economically feasible.

~~4.~~d. Applicants may provide trenching for service lines and/or distribution mains to the Company's specifications and the Applicant's costs will be reduced accordingly.

~~5.~~e. Customers provided with line extensions using the ICS shall be reviewed annually for a period of five (5) years to determine the amount of any refund, as described in Subsection B.~~5~~6 below.

~~6.~~f. For the purposes of this rule, "economic feasibility" means that the estimated incremental revenues derived from serving the Applicant, less the incremental gas cost to serve the Applicant, meets the estimated costs of serving the Applicant, including meeting capital costs as determined by the weighed average cost of capital authorized by the ACC in the Company's most recent general rate case. An extension will not be considered economically feasible if the Applicant does not install a functioning water heater and furnace within four (4) months of the completion of the main.

~~e.~~5. Method of Refund

Amounts advanced by the Customer(s) in accordance with this rule, less any unpaid Facility Charges, shall be refunded, without interest, in the following manner:

~~A.~~a. Refunds of an advance shall be made for each additional separately metered permanent service connected to the main extension for which an advance was collected using an ICS that includes the additional Customer(s).

~~B.~~b. No refunds will be made for additional Customers connecting to a further extension or series of extensions constructed beyond the original extension.

~~C.~~c. The Customer may request an annual survey to determine if additional Customers have been connected to and are using service from the extension. In no case shall the amount of the refund exceed the amount originally advanced.

~~D.~~d. The refund period shall be five (5) years from the date of the completion of the extension. No refunds will be made by the Company after the termination of the refund period. Any portion of the advance that remains unrefunded at the end of the refund period shall be considered an unrefundable contribution.

~~E.~~e. Any assignment by a Customer of their interest in any part of an advance, which at the time remains unrefunded, must be made in writing and approved by the Company.

~~F.~~f. Amounts advanced under a gas main extension rule previously in effect will be refunded in accordance with the provisions of that rule.

SECTION NO. 7
EXTENSION OF LINES
(continued)

C. Service and Main Extensions to Service Individually Metered Subdivisions, Tracts, Housing Projects, Multi-Family Dwellings and Mobile Home Parks or Estates

1. Advances

a. Gas distribution service and main extensions to and within individually metered subdivisions, tracts, housing projects, multi-family dwellings and mobile home parks or estates will be constructed, owned and maintained by the Company in advance of applications for service by bona fide Customers only when the entire estimated cost of such extensions as determined by the Company, is advanced to the Company, and a main extension agreement is executed. This advance may include the cost of any gas facilities installed at the Company's expense in conjunction with a previous service or main extension in anticipation of the current extension.

b. The Company may require a subdivider, builder or developer to provide trenching for service lines and/or distribution mains and may also require the subdivider, builder or developer to provide bedding & shading material to Company specifications.

c. For developers who have entered into a main extension agreement and facilities have been installed and then they or some other party request subsequent reconfiguring of facilities or other changes requiring additional expenditures by the Company, these new costs will be entirely paid for with a non-refundable contribution and any refunds will be made in accordance with the original agreement. No additional agreement or extension of the time for refunds will be made to cover the area piped under the original extension agreement.

d. Upon completion of installation, the Company will perform a reconciliation of the estimate to actual costs incurred and may bill the Customer for any variance with the new amount included in the refundable balance, or at the Company's option withhold refunds until the underpayment is satisfied.

e. See Subsection B.3 above for requests to serve MMP through individual residential meters if the MMP is currently or was formerly served under an MMP schedule.

f. Refunds will be made to developers as described in Subsection B.5 above.

D. General Conditions

~~A.~~1. Postponement of Advance

The Company, at its option, may postpone, for a period not to exceed five (5) years that portion of an advance which it estimates would be refunded under the provisions of this rule. At the end of such refund period, the Company shall collect all such amounts not previously advanced. When advances are postponed, the Applicant may be required to furnish to the Company, a Company-approved surety, to assure payment of any postponed amounts throughout the term of the facilities extension agreement up until the end of the postponement period.

SECTION NO. 7
EXTENSION OF LINES
(continued)

~~B.~~2. The Applicants or developer will provide property location, tax identification numbers, lot numbers, street names and other property information helpful to planning an extension.

~~C.~~3. Contracts

~~1.~~a. Each Applicant requesting an extension in advance of applications for service will be required to execute a main extension agreement covering the terms under which the Company will install distribution mains in accordance with the provisions of the Company's Pricing Plans.

~~2.~~b. At the time service is requested, the Applicant will submit a list of natural gas equipment to be used including the BTU input.

~~D.~~4. One Service for a Single Premise

a. The Company will not install more than one service line to supply a single premise, unless it is for the convenience of the Company or an Applicant requests an additional service, and in the opinion of the Company, an unreasonable burden would be placed on the Applicant if the additional service were denied. When an additional service is installed at the Applicant's request, the Applicant shall make a nonrefundable contribution for the additional service based on the Company's estimated cost.

b. When a service extension is made to a meter location upon private property which is subsequently subdivided into separate premises, with the ownership portions thereof divested to other than the Applicant or the Customers, the Company shall have the right, upon written notice, to discontinue service without obligation or liability. Gas service, as required by the Applicant or Customer, will be reestablished in accordance with the applicable provisions of the Company's rules.

~~E.~~5. Branch Services

The Company, at its option, may install a branch service for units on adjoining premises.

SECTION NO. 7
EXTENSION OF LINES
(continued)

~~F.~~6. Main Extension Agreement Requirements

a. Upon request by an Applicant for a main extension, the Company shall prepare, without charge, a preliminary sketch and rough estimate of the cost of the installation to be advanced by the Applicant.

b. Any Applicant for a main extension requesting the Company to prepare detailed plans, specifications, or cost estimates may be required to deposit with the Company an amount equal to the estimated cost of preparation. The Company shall, upon request, make available within ninety (90) days after receipt of the deposit referred to above, such plans, specifications, or cost estimates of the proposed main extension. Where the Applicant authorizes the Company to proceed with the construction of the extension, the deposit shall be credited to the cost of construction; otherwise, the deposit shall be nonrefundable. If the extension is to include oversizing of facilities to be done at the Company's expense, appropriate details shall be set forth in the plans, specifications and cost estimates. Subdividers providing the Company with approved subdivision plats shall be provided with plans, specifications or cost estimates within forty-five (45) days after receipt of the deposit referred to above.

c. The estimated cost of main extension and any resulting Main Extension Agreement is valid for ninety (90) days from the date of Company issue. Any signed agreement with appropriate payment where construction does not commence within ninety (90) days may be subject to review, recalculation and adjustment of advance requirements.

d. Where the Company requires an Applicant to advance funds for a main extension, the Company will ~~shall~~ furnish the Applicant, upon request, with a copy of this rule prior to the Applicant's acceptance of the Company's extension agreement.

SECTION NO. 7
EXTENSION OF LINES
(continued)

e. All main extension agreements requiring payment by the Applicant shall be in writing, signed by each party and shall include the following:

   i. Name and address of Applicant(s);

   ii. Proposed service address(es) or location(s);

   iii. Description and sketch of the requested main extension;

   iv. Description of requested service differentiated by Customer class;

   v. Number of Customers served;

   vi. Estimated cost to construct facilities;

   vii. The Company's estimated start date and completion date for construction of the main extension;

   viii. Each Applicant shall be provided a copy of the approved main extension agreements;

   ix. Payment terms; and

   x. A concise explanation of any refunding provisions, if applicable.

~~G.~~7. Relocation of Service Lines and Distribution Mains

a. When, in the judgment of the Company, the relocation of a distribution main or service line is necessary and is due either to maintenance of adequate service or the operating convenience of the Company, the Company shall perform such work at its own expense.

b. If relocation of a distribution main or service line is due solely to meet the convenience or the requirements of the Applicant or the Customer, such relocation, including metering and regulating facilities, shall be performed by the Company at the expense of the Applicant or the Customer.

c. Relocation of facilities will be mandatory and at the Customer's expense when actions of the Customer restrict the Company's access to or the safety of the facility.

SECTION NO. 7
EXTENSION OF LINES
(continued)

~~H.~~8. Standby Service or Residential Pool Heating

No allowance will be made for equipment used for standby or emergency purposes only or for equipment used for residential pool heating under Section No. 7, Subsection B.4.

~~I.~~9. Temporary Service

Extensions for temporary service or for operations, which in the opinion of the Company are of a speculative character or are of questionable permanency, will require an advance for the entire cost of the facilities needed, with provision for a refund using an ICS calculated annually, or at the termination of the temporary service.

~~J.~~10. Length and Location

The length of distribution mains or service lines required for an extension will be considered as the distance along the shortest practical and available route, as determined by the Company, from the Company's nearest permanent distribution main.

~~K.~~11. Service Impairment to Other Customers

When, in the judgment of the Company, providing service to an Applicant would impair service to other Customers, the cost of necessary reinforcement to eliminate such impairment may be included in the cost calculation for the extension.

~~L.~~12. Service From Transmission Lines

The Company will not tap a gas transmission main except when, in its sole opinion, conditions justify such a tap. Where such taps are made, the Applicant will pay the Company the cost of the tap, and extensions from the tap will be made in accordance with the provisions of this rule.

~~M.~~13. Other Types of Connections

Where an Applicant or Customer requests a type of service connection other than standard such as curb meters and vaults, etc., the Company will consider each such request and will grant such reasonable allowance as it may determine. The Company shall install only those facilities that it determines are necessary to provide standard natural gas service in accordance with the Company's Pricing Plans. Where the Applicant requests the Company to install special facilities which are in addition to, or in substitution for, or which result in higher costs than the standard facilities which the Company would normally install, the extra cost thereof shall be borne by the Applicant.

SECTION NO. 7
EXTENSION OF LINES
(continued)

~~N.~~14. Exceptional Cases

In unusual circumstances, when the application of this rule appears impractical or unjust to either party, the Company or the Applicant may refer the matter to the ACC for special ruling or for the approval of special conditions which may be mutually agreed upon, prior to commencing construction.

~~O.~~15. Taxes Associated with Nonrefundable Contributions and Advances

Any federal, state or local income taxes resulting from a nonrefundable contribution or advance by the Customer in compliance with this rule will be recorded as a deferred tax and appropriately reflected in the Company's rate base. However, if the estimated cost of facilities for any service line or distribution main extension exceeds $500,000, the Company may require the Applicant to include in the contribution or advance an amount (the "gross up amount") equal to the estimated federal, state or local income tax liability of the Company resulting from the contribution or advance, computed as follows:

$$\text{Gross Up Amount} = \frac{\text{Estimated Construction Cost}}{(1 - \text{Combined Federal-State-Local Income Tax Rate})}$$

After the Company's tax returns are completed, and actual tax liability is known, to the extent that the computed gross up amount exceeds the actual tax liability resulting from the contribution or advance, the Company shall refund to the Applicant an amount equal to such excess. When a gross-up amount is to be obtained in connection with an extension agreement, the contract will state the tax rate used to compute the gross up amount, and will also disclose the gross-up amount separately from the estimated cost of facilities. In subsequent years, as tax depreciation deductions are taken by the Company on its tax returns for the constructed assets with tax bases that have been grossed-up, a refund will be made to the Applicant in an amount equal to the related tax benefit. Such refunds will be in addition to any required refunds of actual construction costs required by the extension agreement. In lieu of scheduling such refunds over the remaining tax life of the constructed assets, a reduced lump sum refund may be made at the time when actual construction costs are refunded in full. This lump sum payment shall reflect the net present value of remaining tax depreciation deductions discounted at the Company's authorized rate of return.

SECTION NO. 8
PROVISION OF SERVICE

~~1.~~A. Company Responsibility

~~a.~~1. The Company shall be responsible for the safe transmission and distribution of gas until it passes the ~~P~~point of ~~D~~delivery to the Customer.

~~b.~~2. The Company shall be responsible for maintaining in safe operating condition all meters, regulators, service pipe or other fixtures installed on the Customer's premises by the Company for the purpose of delivering gas to the Customer.

~~c.~~3. The Company may, at its option, refuse service until the Customer's pipes and appliances have been tested and found to be safe, free from leaks, and in good operating condition. Proof of such testing shall be in the form of a certificate executed by a licensed plumber or local inspector certifying that the Customer's facilities have been tested and are in safe operating condition.

~~d.~~4. The Company shall be required to test the Customer's piping for leaks when the gas is turned on. If such tests indicate leakage in the Customer's piping, the Company shall refuse to provide service until such time as the Customer has had the leakage corrected.

~~e.~~5. The Company shall be responsible for the operation and maintenance of all facilities up to the outlet of the meter installed by the Company or its authorized agent.

~~2.~~B. Customer Responsibility

1. Each Customer shall be responsible for maintaining in safe operating condition all Customer piping fixtures and appliances on the Customer's side of the ~~P~~point of ~~D~~delivery.

2. Each Customer shall be responsible for safeguarding all Company property installed in or on the Customer's premises for the purpose of supplying gas service.

3. Each Customer shall exercise all reasonable care to prevent loss or damage to Company property, excluding ordinary wear and tear. The Customer shall be responsible for loss of or damage to, Company property on the Customer's premises arising from neglect, carelessness, or misuse and shall reimburse the Company for the cost of necessary repairs and replacements that arise from neglect, carelessness, or misuse.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

4. Each Customer shall be responsible for payment for any equipment damage and/or estimated unmetered usage resulting from unauthorized breaking of seals, interfering, t~~T~~ampering, or by-passing the Company's meters. This remedy is cumulative to any other remedy available to Company under law or ACC rules.

5. Each Customer shall be responsible for promptly notifying the Company of any gas leakage identified in the Customer's or the Company's equipment.

6. The Customer will be responsible for the loss of gas or damage caused by gas in piping beyond the Company's meter.

7. No rent or other charge whatsoever will be made by the Customer against the Company for placing or maintaining meters, regulators, service lines, fixtures, etc. upon the Customer's premises.

~~3.~~C. Continuity of Service

The Company shall make reasonable efforts to supply a satisfactory and continuous level of service.

~~4.~~D. Liability

1. The Company shall not be responsible for any damage or claim of damage attributable to any interruption or discontinuation of service resulting from the following:

   ~~A.~~a. Any cause against which the Company could not have reasonably foreseen or made provision for;

   ~~B.~~b. Intentional service interruptions to make repairs or perform routine maintenance; or

   ~~C.~~c. Curtailment.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

2. Neither the Company nor the Customer shall be liable to the other for any act, omission or circumstances (including, with respect to the Company, but not limited to, inability to provide service) occasioned by or in consequence of flood, rain, wind, storm, lightning, earthquake, fire, landslide, washout or other acts of the elements, or accident or explosion, or war, rebellion, civil disturbance, mobs, riot, blockade, terrorist actions, or other acts of the public enemy, or acts of God, or interference of civil and/or military authorities, or strikes, lockouts or other labor difficulties, or vandalism, sabotage or malicious mischief, or usurpation of power, or the laws, rules, regulations or orders made or adopted by any regulatory or other governmental agency or body (federal, state or local) having jurisdiction of any of the business or affairs of the Company or the Customer, direct or indirect, or breakage or accidents to equipment or facilities, or lack, limitation or loss of electrical or gas supply, or any other casualty or cause beyond the reasonable control of the Company or the Customer, whether or not specifically provided herein and without limitation to the types enumerated, and which by the exercise of due diligence such party is unable to prevent or overcome; provided, however, that nothing contained herein shall excuse the Customer from the obligation of paying for gas delivered or services rendered.

3. A failure to settle or prevent any strike or controversy with employees or with anyone purporting or seeking to represent employees shall not be considered to be a matter within the control of the Company.

4. Company will not be responsible for any third-party claims against Company that arise from Customer's use of Company's gas.

5. Customer will indemnify, defend and hold harmless the Company (including the costs of reasonable attorney's fees) against all claims (including, without limitation, claims for damages to any business or property, or injury to, or death of, any person) arising out of any act or omission of the Customer, or the Customer's agents, in connection with the Company's service or facilities.

6. The liability of the Company for damages of any nature arising from errors, mistakes, omissions, interruptions, or delays of the Company, its agents, servants, or employees, in the course of establishing, furnishing, rearranging, moving, terminating, or changing the service or facilities or equipment shall not exceed an amount equal to the charges applicable under the Company's Pricing Plan (calculated on a proportionate basis where appropriate) to the period during which such error, mistake, omission, interruption or delay occurs.

7. In no event shall the Company be liable for any incidental, indirect, special, or consequential damages (including lost revenue or profits) of any kind whatsoever regardless of the cause or foreseeability thereof.

8. The Company shall not be responsible for any loss or damage occasion or caused by the negligence or wrongful act of the Customer or any of his agents, employees or licensees in installing, maintaining, using, operating or interfering with any regulators, gas piping, appliances, fixtures or apparatus.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

~~5.~~E. Change in Character of Service

1. When a change is made by the Company in the type of service rendered which would adversely affect the efficiency of operation or require the adjustment of the equipment of Customers, all Customers who may be affected shall be notified by the Company at least thirty (30) days in advance of the change or, if such notice is not possible, as early as feasible. Where adjustments or replacements of the Company's standard equipment must be made to permit use under such changed condition, adjustments shall be made by the Company without charge to the Customers.

~~6.~~F. Service Interruptions

1. The Company shall make reasonable efforts to reestablish service within the shortest possible time when service interruptions occur.

2. The Company shall make reasonable provisions to meet emergencies resulting from failure of service and shall issue instructions to its employees covering procedures to be followed in the event of emergencies in order to prevent or mitigate interruption or impairment of service.

3. In the event of a national emergency or local disaster resulting in disruption of normal service, the Company may, in the public interest, interrupt service to other Customers to provide necessary service to civil defense or other emergency service agencies on a temporary basis until normal service to these agencies can be restored.

4. When the Company plans to interrupt service for more than four (4) hours to perform necessary repairs or maintenance, the Company shall attempt to inform affected Customers of the scheduled date and estimated duration of the service interruption at least twenty-four (24) hours in advance. Such repairs shall be completed in the shortest possible time to minimize the inconvenience to the Customers.

5. The ACC shall be notified of interruptions in service affecting the entire system or any major division of the entire system. The interruption of service and the cause shall be reported by telephone to the ACC within one (1) hour after the responsible representative of the Company becomes aware of said interruption, and shall be followed by a written report to the ACC.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

~~7.~~G. Heat Value Standard for Natural Gas

The Company shall supply gas to its Customers with an average total heating value of not less than nine hundred (900) BTUs per cubic foot. The number of BTUs per cubic foot actually delivered through the Customer's meter will vary according to the altitude and elevation of the location where the Customer is being provided service.

~~8.~~H. Standard Delivery Pressure

~~a.~~1. The Company shall maintain the Standard Delivery Pressure ~~of~~ at the outlet of the Customer's meter, subject to variation under load conditions.

~~b.~~2. In cases where a Customer desires service at greater than Standard Delivery Pressure, the Company may supply, at its option, such greater pressure if and only as long as the furnishing of gas to such Customer at higher than standard delivery pressure will not be detrimental to the service of other Customers of the Company. The Company reserves the right to lower the delivery pressure or discontinue the delivery of gas at higher pressure at any time upon reasonable notice to the Customer. Where service is provided at pressure higher than Standard Delivery Pressure, the meter volumes shall be corrected to that higher pressure.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

~~9.1.~~ *Determination of Therms for Billing*

1. Heating Value – The heating value (BTU per cubic foot) of the natural gas delivered will vary depending on the source of supplies received by the Company. The average heating values will be determined from the volumetric weighted average heating values of the supplies received by the Company.

2. Metered Volumes – The number of therms to be billed will be determined by multiplying the difference in meter readings by an appropriate billing factor.

   a. Therms are determined from the volumes measured by the following:

$$\underbrace{\frac{\text{Atmospheric Pressure at Elevation + Delivery Pressure}}{\text{14.73 Atmospheric Pressure at Sea Level}}}_{A} \times \underbrace{\frac{\text{Average Heating Value (BTU per cubic foot)}}{\text{100,000 BTU per Therm}}}_{B} \times \underbrace{\text{Super Compressibility Factor}}_{C}$$

   Where:
   A = Correction for atmospheric pressure at elevation and applicable delivery pressure
   B = Applicable heating value of natural gas received
   C = Correction for super compressibility ratio

   b. Atmospheric Pressures at Elevations within the Company's service territory are outlined in the following table. At such time additional elevation bands are needed within the various areas served by the Company, new bands ~~geographical zones~~ will be added.

SECTION NO. 8
PROVISION OF SERVICE
(continued)

Elevation Range	Atmospheric Pressure Base
201 - 400	14.57206
401 - 600	14.46665
601 - 800	14.36200
801 - 1000	14.25810
1001 - 1200	14.15495
1201 - 1400	14.05253
1401 - 1600	13.95084
1601 - 1800	13.84987
1801 - 2000	13.74962
2001 - 2200	13.65007
2201 - 2400	13.55122
2401 - 2600	13.45306
2601 - 2800	13.35558
2801 - 3000	13.25878
3001 - 3200	13.16265
3201 - 3400	13.06718
3401 - 3600	12.97237
3601 - 3800	12.87820
3801 - 4000	12.78468
4001 - 4200	12.69179
4201 - 4400	12.59954
4401 - 4600	12.50791
4601 - 4800	12.41689
4801 - 5000	12.32648
5001 - 5200	12.23668
5201 - 5400	12.14748
5401 - 5600	12.05887
5601 - 5800	11.97084
5801 - 6000	11.88340
6001 - 6200	11.79653
6201 - 6400	11.71023
6401 - 6600	11.62449
6601 - 6800	11.53932

6801 - 7000	11.45469
7001 - 7200	11.37061
7201 - 7400	11.28708
7401 - 7600	11.20408

~~**Northern Arizona:**~~

~~Geographical Zone Description~~	~~Atmospheric Pressure Base~~
~~ASHFORK AZ E4801-5000~~	~~12.3264800~~
~~ASHFORK AZ E5001-5200~~	~~12.2366800~~
~~BAGD CPR AZ E3601-3800~~	~~12.8782000~~
~~BAGD ML AZ E2601-2800~~	~~13.3555800~~
~~BAGDAD MINE E0401-0600~~	~~14.4666500~~
~~BLACK CANYON CITY AZ E1601-1800~~	~~13.8498700~~

~~SECTION NO. 8~~
~~PROVISION OF SERVICE~~
~~(continued)~~

~~Geographical Zone Description~~	~~Atmospheric Pressure Base~~
~~BLACK CANYON CITY AZ E1801-2000~~	~~13.7496200~~
~~CAMP VERDE AZ E2801-3000~~	~~13.2587800~~
~~CAMP VERDE AZ E3001-3200~~	~~13.1626500~~
~~CHINO VALLEY AZ E4201-4400~~	~~12.5995400~~
~~CHINO VALLEY AZ E4401-4600~~	~~12.5079100~~
~~CHINO VALLEY AZ E4601-4800~~	~~12.4168900~~
~~CLARKDALE AZ E3001-3200~~	~~13.1626500~~
~~CLARKDALE AZ E3201-3400~~	~~13.0671800~~
~~CLARKDALE AZ E3401-3600~~	~~12.9723700~~
~~CORNVILLE AZ E3001-3200~~	~~13.1626500~~
~~CORNVILLE AZ E3201-3400~~	~~13.0671800~~
~~COTTONWOOD AZ E3001-3200~~	~~13.1626500~~
~~COTTONWOOD AZ E3201-3400~~	~~13.0671800~~
~~COTTONWOOD AZ E3401-3600~~	~~12.9723700~~
~~COTTONWOOD AZ E3601-3800~~	~~12.8782000~~
~~DUVAL AZ E3201-3400~~	~~13.0671800~~
~~FLAGSTAFF AZ E6201-6400~~	~~11.7102300~~
~~FLAGSTAFF AZ E6401-6600~~	~~11.6244900~~
~~FLAGSTAFF AZ E6601-6800~~	~~11.5393200~~
~~FLAGSTAFF AZ E6801-7000~~	~~11.4546900~~
~~FLAGSTAFF AZ E7001-7200~~	~~11.3706100~~
~~FLAGSTAFF AZ E7201-7400~~	~~11.2870800~~
~~HOLBROOK AZ E4801-5000~~	~~12.3264800~~
~~HOLBROOK AZ E5001-5200~~	~~12.2366800~~
~~HUMBOLDT AZ E4201-4400~~	~~12.5995400~~
~~HUMBOLDT AZ E4401-4600~~	~~12.5079100~~
~~HUMBOLDT AZ E4601-4800~~	~~12.4168900~~
~~INDPK AZ E6201-6400~~	~~11.7102300~~
~~JEROME AZ E4201-4400~~	~~12.5995400~~
~~JEROME AZ E4401-4600~~	~~12.5079100~~
~~JEROME AZ E4601-4800~~	~~12.4168900~~
~~JEROME AZ E4801-5000~~	~~12.3264800~~
~~JEROME AZ E5001-5200~~	~~12.2366800~~
~~JOSEPH CITY AZ E4601-4800~~	~~12.4168900~~
~~JOSEPH CITY AZ E4801-5000~~	~~12.3264800~~
~~KINGMAN AZ E3001-3200~~	~~13.1626500~~

~~SECTION NO. 8~~
~~PROVISION OF SERVICE~~
~~(continued)~~

~~Geographical Zone Description~~	~~Atmospheric Pressure Base~~
~~KINGMAN AZ E3201-3400~~	~~13.0671800~~
~~KINGMAN AZ E3401-3600~~	~~12.9723700~~
~~KINGMAN AZ E3601-3800~~	~~12.8782000~~
~~KINGMAN AZ E3801-4000~~	~~12.7846800~~
~~LAKE HAVASU CITY AZ E0201-0400~~	~~14.5720600~~
~~LAKE HAVASU CITY AZ E0401-0600~~	~~14.4666500~~
~~LAKE HAVASU CITY AZ E0601-0800~~	~~14.3620000~~
~~LAKE HAVASU CITY AZ E0801-1000~~	~~14.2581000~~
~~LAKE HAVASU CITY AZ E1001-1200~~	~~14.1549500~~
~~LAKE HAVASU CITY AZ E1201-1400~~	~~14.0525300~~
~~LAKE HAVASU CITY AZ E1401-1600~~	~~13.9508400~~
~~MAYER AZ E4001-4200~~	~~12.6917900~~
~~MAYER AZ E4201-4400~~	~~12.5995400~~
~~MOUNTAIN VIEW AZ E6401-6600~~	~~11.6244900~~
~~NAVAJO ARMY DEPOT E5401-5600~~	~~12.0588700~~
~~PAULDEN AZ E4001-4200~~	~~12.6917900~~
~~PAULDEN AZ E4201-4400~~	~~12.5995400~~
~~PAULDEN AZ E4401-4600~~	~~12.5079100~~
~~PHX CMT AZ E3401-3600~~	~~12.9723700~~
~~PINETOP/LAKESIDE AZ E6201-6400~~	~~11.7102300~~
~~PINETOP/LAKESIDE AZ E6401-6600~~	~~11.6244900~~
~~PINETOP/LAKESIDE AZ E6601-6800~~	~~11.5393200~~
~~PINETOP/LAKESIDE AZ E6801-7000~~	~~11.4546900~~
~~PINETOP/LAKESIDE AZ E7001-7200~~	~~11.3706100~~
~~PRESCOTT VALLEY AZ E4201-4400~~	~~12.5995400~~
~~PRESCOTT VALLEY AZ E4401-4600~~	~~12.5079100~~
~~PRESCOTT VALLEY AZ E4601-4800~~	~~12.4168900~~
~~PRESCOTT VALLEY AZ E4801-5000~~	~~12.3264800~~
~~PRESCOTT VALLEY AZ E5001-5200~~	~~12.2366800~~
~~PRESCOTT AZ E4601-4800~~	~~12.4168900~~
~~PRESCOTT AZ E4801-5000~~	~~12.3264800~~
~~PRESCOTT AZ E5001-5200~~	~~12.2366800~~
~~PRESCOTT AZ E5201-5400~~	~~12.1474800~~
~~PRESCOTT AZ E5401-5600~~	~~12.0588700~~
~~PRESCOTT AZ E5601-5800~~	~~11.9708400~~
~~PRESCOTT AZ E5801-6000~~	~~11.8834000~~

~~SECTION NO. 8~~
~~PROVISION OF SERVICE~~
~~(continued)~~

~~Geographical Zone Description~~	~~Atmospheric Pressure Base~~
~~SEDONA AZ E3401-3600~~	~~12.9723700~~
~~SEDONA AZ E3601-3800~~	~~12.8782000~~
~~SEDONA AZ E3801-4000~~	~~12.7846800~~
~~SEDONA AZ E4001-4200~~	~~12.6917900~~
~~SEDONA AZ E4201-4400~~	~~12.5995400~~
~~SEDONA AZ E4401-4600~~	~~12.5079100~~
~~SEDONA AZ E4601-4800~~	~~12.4168900~~
~~SELIGMAN AZ E5001-5200~~	~~12.2366800~~
~~SHOW LOW AZ E5801-6000~~	~~11.8834000~~
~~SHOW LOW AZ E6001-6200~~	~~11.7965300~~
~~SHOW LOW AZ E6201-6400~~	~~11.7102300~~
~~SHOW LOW AZ E6401-6600~~	~~11.6244900~~
~~SNOWFLAKE AZ E5201-5400~~	~~12.1474800~~
~~SNOWFLAKE AZ E5401-5600~~	~~12.0588700~~
~~SPRING VALLEY AZ E3601-3800~~	~~12.8782000~~
~~SPRING VALLEY AZ E3801-4000~~	~~12.7846800~~
~~STONE CONTAINER E6001-6200~~	~~11.7965300~~
~~TAYLOR AZ E5401-5600~~	~~12.0588700~~
~~VERDE VALLEY AZ E3401-3600~~	~~12.9723700~~
~~VILLAGE OF OAK CREEK AZ E3601-3800~~	~~12.8782000~~
~~VILLAGE OF OAK CREEK AZ E3801-4000~~	~~12.7846800~~
~~VILLAGE OF OAK CREEK AZ E4001-4200~~	~~12.6917900~~
~~WILLIAMS AZ E6401-6600~~	~~11.6244900~~
~~WILLIAMS AZ E6601-6800~~	~~11.5393200~~
~~WILLIAMS AZ E6801-7000~~	~~11.4546900~~
~~WINSLOW AZ E4601-4800~~	~~12.4168900~~

~~SECTION NO. 8~~
~~PROVISION OF SERVICE~~
~~(continued)~~

~~**Southern Arizona:**~~

~~**Geographical Zone Description**~~	~~**Atmospheric Pressure Base**~~
~~AMADO AZ E2801-3000~~	~~13.2587800~~
~~AMADO AZ E3001-3200~~	~~13.1626500~~
~~NOGALES AZ E3201-3400~~	~~13.0671800~~
~~NOGALES AZ E3401-3600~~	~~12.9723700~~
~~NOGALES AZ E3601-3800~~	~~12.8782000~~
~~NOGALES AZ E3801-4000~~	~~12.7846800~~
~~PATAGONIA AZ E3601-3800~~	~~12.8782000~~
~~PATAGONIA AZ E3801-4000~~	~~12.7846800~~
~~PATAGONIA AZ E4001-4200~~	~~12.6917900~~
~~RIO RICO AZ E3001-3200~~	~~13.1626500~~
~~RIO RICO AZ E3201-3400~~	~~13.0671800~~
~~RIO RICO AZ E3401-3600~~	~~12.9723700~~
~~RIO RICO AZ E3601-3800~~	~~12.8782000~~
~~RIO RICO AZ E3801-4000~~	~~12.7846800~~
~~RIO RICO AZ E4001-4200~~	~~12.6917900~~
~~TUBAC AZ E2801-3000~~	~~13.2587800~~
~~TUBAC AZ E3001-3200~~	~~13.1626500~~
~~TUBAC AZ E3201-3400~~	~~13.0671800~~
~~TUBAC AZ E3401-3600~~	~~12.9723700~~

SECTION NO. 8
PROVISION OF SERVICE
(continued)

~~10.~~J. Construction Standards and Safety

The Company's pipelines and pipeline facilities for the transportation of gas within the State of Arizona shall conform with and be subject to the Federal Safety Standards as adopted by the United States Department of Transportation, Pipeline and Hazardous Materials Safety Administration. The Company maintains and updates an Operation and Maintenance plan and an Emergency plan. Upon discovery of occurrence, the Company will report all incidents as required under the Arizona Administrative Code, R14-5-203.

SECTION NO. 9
METER READING

~~1.~~A. Company or Customer Meter Reading

~~A.~~1. The Company may, at its discretion, allow for Customer reading of meters.

~~B.~~2. It shall be the responsibility of the Company to inform the Customer how to properly read the Customer's meter.

~~C.~~3. Where a Customer reads the meter, the Company will read the Customer's meter at least once every six (6) months.

~~D.~~4. The Company shall specify the timing requirements for the Customer to submit the monthly meter reading to conform to the Company's billing cycle.

~~E.~~5. In the event the Customer fails to submit the meter reading on time, the Company may issue the Customer an estimated bill.

~~F.~~6. Meters shall be read monthly on as close to the same day each month as practical.

~~2.~~B. Measuring of Service

1. All gas sold by the Company shall be metered, except in the case of gas sold according to a fixed charge schedule, or when otherwise authorized by the ACC.

2. When there is more than one (1) meter at a location, the metering equipment shall be so tagged or plainly marked as to indicate the facilities being metered.

3. If and when the Company installs multiple meters or service lines to serve a single Customer for the Company's convenience, meter readings may be combined for billing purposes.

~~3.~~C. Customer-Requested Meter Re-reads

~~a.~~1. At the request of a Customer, the Company will reread that Customer's meter within ten (10) ~~working~~ business days after such request by the Customer.

~~b.~~2. Any reread will~~may~~ be charged to the Customer at a rate set forth in the Statement of Additional Charges~~on file and approved by the ACC~~, provided that the original reading was not in error.

~~c.~~3. When a reading is found to be in error, the re-read shall be at no charge to the Customer.

SECTION NO. 9
METER READING
(continued)

~~4.~~D. Access to Customer Premises

The Company shall have the right of safe ingress to and egress from the Customer's premises at all reasonable hours for any purpose reasonably connected with the furnishing of service and the exercise of any and all rights secured to the Company by law or the ACC's rules or the Company's Pricing Plans.

~~5.~~E. Customer-Requested Meter Tests

The Company shall test a meter upon Customer request and shall be authorized to charge the Customer for such meter test. The charge for the meter test is set forth in the Statement of Additional Charges. However, if the meter is found to be in error by more than three percent (3%), no fee will be charged to the Customer.

SECTION NO. 10
BILLING AND COLLECTION

~~a.~~A. Frequency and Estimated Bills

1. The Company shall bill monthly for services rendered. Meter readings shall be scheduled for periods of not less than twenty-five (25) days or more than thirty-five (35) days.

2. If the Company is unable to read a meter on the scheduled meter read date, the Company will estimate the consumption for the billing period, giving consideration to the following factors where applicable:

   a. The Customer's usage history in the previous twelve (12) months; and

   b. The amount of usage during the preceding month.

3. After the second consecutive month of estimating the Customer's bill for reasons other than severe weather, the Company will attempt to secure an accurate reading of the meter.

4. Failure on the part of the Customer to comply with a reasonable request by the Company for access to the Customer's meter may lead to the discontinuance of service.

5. Estimated bills will be issued only under the following conditions:

   ~~1.~~a. Failure of a Customer who reads his or her own meter to deliver the meter reading card to the Company in accordance with the requirements of the Company's billing cycle;

   ~~2.~~b. Severe weather conditions which prevent the Company from reading the meter; or

   ~~3.~~c. Circumstances that make it impossible to read the meter, such as locked gates, blocked meters, and vicious or dangerous animals, etc.

6. Each bill based on estimated usage will indicate that it is an estimated bill.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~b.~~B. Combining Meters - Minimum Bill Information

1. Each meter at a Customer's premises will be considered separately for billing purposes; and the readings of two (2) or more meters will not be combined unless approved by the Company.

2. Each bill for sales service will contain the following minimum information:

    ~~1.~~a. Date and meter reading at the start of billing period or number of days in the billing period;

    ~~2.~~b. Date and meter reading at the end of the billing period;

    ~~3.~~c. Billed usage;

    ~~4.~~d. Rate schedule number;

    ~~5.~~e. Company's telephone number;

    ~~6.~~f. Customer's name;

    ~~7.~~g. Service account number;

    ~~8.~~h. Amount due and due date;

    ~~9.~~i. Past due amount;

    ~~10.~~j. Adjustment factor, where applicable;

    ~~11.~~k. Taxes; and

    ~~12.~~l. The Arizona Corporation Commission's address.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~c.~~C. Billing Terms

~~a.~~1. All bills for gas service are due and payable no later than ten (10) days from the date the bill is rendered. Any payment not received within this time-frame shall be considered past due and may be subject to a late payment finance~~penalty~~ charge as set forth in the Statement of Additional Charges. If the tenth (10th) day falls on a weekend or holiday, then the past due date is extended to the next business day.

2. For purposes of this rule, the date the bill is rendered shall be the latest of the following:

   a. The postmark date;

   b. The mailing date; or

   c. The billing date shown on the bill (however, the billing date shall not differ from the postmark or mailing date by more than two (2) days.

3. All past due bills for gas service are due and payable within fifteen (15) days. Any payment not received within this time-frame shall be considered delinquent and will be issued a suspension of service notice.– For Customers under the jurisdiction of a bankruptcy court, a more stringent payment or prepayment schedule may be required, if allowed by that court.

   a. The amount of the late payment penalty shall not exceed one and one-half percent (1.5%) of the delinquent bill, applied on a monthly basis.

4. All delinquent bills for which payment has not been received within five (5) days shall be subject to the provisions of the Company's suspension of service procedures.

5. All payments shall be made at or mailed to the office of the Company or to the Company's duly authorized representative.

6. A past due payment may be collected by a Company representative at the Customer's premises for a fee as set forth in the Statement of Additional Charges.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~d.~~D. Applicable Pricing Plans, Prepayments, Failure to Receive, Commencement Date

~~a.~~1. Each Customer shall be billed under the Pricing Plan indicated in the Customer's application for service.

~~b.~~2. The Company shall make provisions for advance payment for Company services.

~~c.~~3. Failure to receive bills or notices which have been properly placed in the United States mail shall not prevent such bills from becoming delinquent and does not relieve the Customer of the Customer's obligations therein.

~~d.~~4. Charges for service commence when the service is installed and connection made, whether used or not.

~~e.~~E. Meter Error Corrections

~~a.~~1. If, after testing, any meter is found to be more than three percent (3%) in error, either fast or slow, proper correction between three percent (3%) and the amount of the error shall be made on previous readings, and adjusted bills shall be rendered according to the following terms:

~~1.~~a. For the period of three (3) months immediately preceding the removal of such meter from service for testing or from the time the meter was in service since last tested, but not exceeding three (3) months since the meter shall have been shown to be in error by such test.

~~2.~~b. From the date the error occurred, if the date of the cause can be definitely fixed.

~~b.~~2. No adjustment shall be made by the Company except to the Customer last served by the meter tested.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~f.~~F. Nonsufficient Funds ("NSF") Checks and Denied Electronic Funds Transfers

~~A.~~1. The Company shall be allowed to recover a fee set forth in the Statement of Additional Charges~~according to the Company's Pricing Plans~~, for each instance where a Customer tenders payment for a Company service with an NSF check. This fee shall also apply when an electronic funds transfer ("EFT") is denied for any reason, including for lack of sufficient funds.

~~B.~~2. When the Company is notified by the Customer's bank that there are insufficient funds to cover the check tendered for service, or an EFT has been denied for any reason, the Company may require the Customer to make payment in cash, by money order or certified check, or by other means which guarantee the Customer's payment to the Company.

~~C.~~3. A Customer who tenders an NSF check or for whom an EFT is denied, shall in no way be relieved of the obligation to render payment to the Company under the original terms of the bill, nor defer the Company's provision for termination of service for nonpayment of bills.

4. No personal checks will be accepted if two (2) NSF checks have been received by the Company within a twelve (12) month period in payment of any billing.

~~g.~~G. Elevation/Pressure Adjustment

The Company shall adjust for pressure according to the procedures in Section 8.H of these Rules and Regulations.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

~~h.~~H. Deferred Payment Plan

1. The Company may, prior to termination of service, offer a deferred payment plan to qualifying residential Customers for the payment of unpaid bills for gas service.

2. Each deferred payment agreement entered into by the Company and the Customer, due to the Customer's inability to pay an outstanding bill in full, shall provide that service will not be discontinued if:

   a. The Customer agrees to pay a reasonable amount of the outstanding bill at the time the parties enter into the deferred payment agreement;

   b. The Customer agrees to pay all future bills for gas service in accordance with the Company's Pricing Plans; and

   c. The Customer agrees to pay a reasonable portion of the remaining outstanding balance in installments.

3. For the purposes of determining a reasonable installment payment schedule under these Rules, the Company and the Customer shall give consideration to the following conditions:

   ~~i.~~a. The size of the delinquent account;

   ~~ii.~~b. The Customer's ability to pay;

   ~~iii.~~c. The Customer's payment history;

   ~~iv.~~d. The length of time that the debt has been outstanding;

   ~~v.~~e. The circumstances which resulted in the debt being outstanding; and

   ~~vi.~~f. Any other relevant factors related to the circumstances of the Customer.

4. Any Customer who desires to enter into a deferred payment agreement shall establish such agreement prior to the Company's scheduled service termination date for nonpayment of bills. The Customer's failure to execute a deferred payment agreement prior to the scheduled service termination date shall not prevent the Company from terminating service for nonpayment.

5. Deferred payment agreements may be in writing and may be signed by the Customer and an authorized Company representative.

SECTION NO. 10
BILLING AND COLLECTION
(continued)

6. A deferred payment agreement may include a finance charge of one and one-half percent (1.5%) per month.

7. If a Customer does not fulfill the terms of a deferred payment agreement, the Company shall have the right to disconnect service pursuant to the Company's termination of service rules (Section No. 11 of these Rules) and, under such circumstances, it shall not be required to offer subsequent negotiation of a deferred payment agreement prior to disconnection.

~~I.~~I. Change of Occupancy

~~i.~~1. Not less than three (3) ~~working~~ business days advance notice must be given in person at the Company's office, in writing, or by telephone to discontinue service or to change occupancy.

~~ii.~~2. The outgoing party shall be responsible for all Company services provided and/or consumed up to the scheduled turn-off date.

~~J.~~J. Electronic Billing

Electronic Billing is an optional billing service whereby Customers may elect to receive, view, and pay their bills electronically. Electronic Billing includes the "UES e-bill" service and the "Sure No Hassle Automatic Payment ("SNAP") service. The Company may modify its electronic billing services from time to time. A Customer electing an electronic billing service may receive an electronic bill in lieu of a paper bill. Customers electing an electronic billing service may be required to complete additional forms and agreements. Electronic billing may be discontinued at any time by the Company or the Customer. An electronic bill will be considered rendered at the time it is electronically sent to the Customer. Failure to receive bills or notices which have been properly sent by an electronic billing system does not prevent such bills from becoming delinquent and does not relieve the Customer of the Customer's obligations therein. Any notices which Company is required to send to a Customer who has elected an electronic billing service may be sent by electronic means at the option of the Company. Except as otherwise provided in this subsection, all other provisions of the Company's Rules and Regulations and other applicable Pricing Plans are applicable to electronic billing.

SECTION NO. 11
TERMINATION OF SERVICE

~~1.~~A. Non-Permissible Reasons to Disconnect Service

~~a.~~1. The Company may not disconnect service for any of the reasons stated below:

~~1.~~a. Delinquency in payment for services rendered to a prior Customer at the premises where service is being provided, except in the instance where the prior Customer continues to reside on the premises.

~~2.~~b. Failure of the Customer to pay for services or equipment that are not regulated by the ACC.

~~3.~~c. Nonpayment of a bill related to another class of service.

~~4.~~d. Failure to pay a bill to correct a previous under-billing due to an inaccurate meter or meter failure, if the Customer agrees to pay over a reasonable period of time.

~~5.~~e. The Company may not terminate residential service where the Customer has an inability to pay and:

~~a.~~i. The Customer can establish through medical documentation that, in the opinion of a licensed medical physician, termination of service would be especially dangerous to the health of the Customer or to the health of a permanent resident residing on the Customer's premises;

~~b.~~ii. Life-supporting equipment is used in the home that is dependent on Company service for operation of such apparatus; or

~~c.~~iii. Where weather will be especially dangerous to health as defined herein or as determined by the ACC.

~~6.~~f. Residential service to persons who have an inability to pay and who have an illness, are ~~a senior citizen~~elderly, or who are handicapped will not be terminated until all of the following have been attempted:

~~1.~~i. The Customer has been informed of the availability of funds from various government and social assistance agencies; and

~~2.~~ii. A third party previously designated by the Customer has been notified and has not made arrangement to pay the outstanding Company bill.

A Customer utilizing the provisions of Subsection A.1.e or A.1.f above may be required to enter into a deferred payment agreement with the Company within ten (10) days after the scheduled service termination date.

~~7.~~g. Failure to pay the bill of another Customer as guarantor thereof.

~~8.~~h. Disputed bills where the Customer has complied with the ACC's rules on Customer bill disputes.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

~~2.~~B. Termination of Service Without Notice

~~a.~~1. The Company may disconnect service without advance written notice under the following conditions:

~~1.~~a. The existence of an obvious hazard to the safety or health of the Customer, the general population or which imperils service to other Customers;

~~2.~~b. The Company has evidence of tampering or fraud;

~~3.~~c. There is an unauthorized resale or use of gas services that is not in accordance with the ACC's rules and/or these Rules and Regulations or other Company Pricing Plans; or

~~4.~~d. The Customer has failed to comply with the curtailment procedures imposed by the Company in accordance with the Company's Pricing Plans.

~~b.~~2. The Company shall not be required to restore service until the conditions which resulted in the termination have been corrected to the satisfaction of the Company.

~~c.~~3. The Company shall maintain a record of all terminations of service without notice. This record shall be maintained for a minimum of one (1) year and shall be available for inspection by the ACC.

~~3.~~C. Termination of Service With Notice

1. The Company may disconnect service to any Customer for any reason stated below, provided that the Company has met the notice requirements described in Section 11.D below:

    a. Customer violation of any of the Company's Pricing Plans;

    b. Failure of the Customer to pay a delinquent bill for gas service;

    c. Failure of the Customer to meet agreed upon deferred payment arrangements;

    d. Failure to meet or maintain the Company's deposit requirements;

    e. Failure of the Customer to provide the Company reasonable access to its equipment and property;

    f. Customer breach of a written contract for service between the Company and Customer; or

    g. When necessary for the Company to comply with an order of any governmental agency having such jurisdiction.

2. The Company shall maintain a record of all terminations of service with notice. This record shall be maintained for one (1) year and shall be available for ACC inspection.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

~~4.~~D. Termination Notice Requirements

~~A.~~1. The Company may not terminate service to any of its Customers without providing advance written notice to the Customer of the Company's intent to disconnect service, except under those conditions specified where advance written notice is not required.

~~B.~~2. Such advance written notice shall contain, at a minimum the following information:

~~1.~~a. The name of the person whose service is to be terminated and the address where service is being rendered;

~~2.~~b. The Pricing Plan that was violated and explanation of the violation or the amount of the bill, which the Customer has failed to pay in accordance with the payment policy of the Company, if applicable;

~~3.~~c. The date on or after which service may be terminated; and

~~4.~~d. A statement advising the Customer that the Company's stated reason for the termination of services may be disputed by contacting the Company at a specific address or phone number, advising the Company of the dispute and making arrangements to discuss the cause for termination with a responsible employee of the Company in advance of the scheduled date of termination. The responsible employee shall be empowered to resolve the dispute and the Company shall retain the option to terminate service after affording this opportunity for a meeting, concluding that the reason of terminating is just, and advising the Customer of his right to file a complaint with the ACC.

~~C.~~3. Where applicable, a copy of the termination notice will be simultaneously forwarded to designated third parties.

~~5.~~E. Timing of Terminations With Notice

~~a.~~1. The Company shall be required to give at least five (5) days advance written notice prior to the termination date. For Customers under the jurisdiction of a bankruptcy court, a shorter notice may be provided, if permitted by that court.

~~b.~~2. Such notice shall be considered to be given to the Customer when a copy of the notice is left with the Customer or posted first class in the United States mail, and addressed to the Customer's last known address.

~~c.~~3. If, after the period of time allowed by the notice has elapsed, the delinquent account has not been paid nor arrangements made with the Company for the payment of the bill, or in the case of a violation of the Company's rules the Customer has not satisfied the Company that such violation has ceased, the Company may terminate service on or after the day specified in the notice without giving further notice.

SECTION NO. 11
TERMINATION OF SERVICE
(continued)

~~d.~~4. Service may only be disconnected in conjunction with a personal visit to the premises by an authorized representative of the Company.

~~e.~~5. The Company shall have the right, but not the obligation, to remove any or all of its property installed on the Customer's premises upon the termination of service.

~~6.~~F. Landlord/Tenant Rule

1. In situations where service is rendered at an address different from the mailing address of the bill or where the Company knows that a landlord/tenant relationship exists and that the landlord is the Customer of the Company, and where the landlord as Customer would otherwise be subject to disconnection of service, the Company may not disconnect service until the following actions have been taken:

   a. Where it is feasible to provide service, the Company, after providing notice as required in these rules, shall offer the occupant the opportunity to subscribe for service in the occupant's own name. If the occupant then declines to subscribe, the Company may disconnect service pursuant to the rules.

   b. The Company shall not attempt to recover payment of any outstanding bills or other charges due on the outstanding account of the landlord from a tenant. The Company shall not condition service to a tenant based on the payment of any outstanding bills or other charges due upon the outstanding account of the landlord.

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS

~~1.~~A. Customer Service Complaints

~~a.~~1. The Company shall make a full and prompt investigation of all service complaints made by its Customers, either directly to the Company or through the ACC.

~~b.~~2. The Company shall respond to the complainant and/or the ACC representative within five (5) ~~working~~ business days as to the status of the Company's investigation of the complaint.

~~c.~~3. The Company shall notify the complainant and/or the ACC representative of the final disposition of each complaint. Upon request of the complainant or the ACC representative, the Company shall report the findings of its investigation in writing.

~~d.~~4. The Company shall inform the Customer of the right of appeal to the ACC.

~~e.~~5. The Company shall keep a record of all written service complaints received and which shall contain, at a minimum, the following data:

~~1.~~a. Name and address of complainant;

~~2.~~b. Date and nature of complaint;

~~3.~~c. Disposition of the complaint; and

~~4.~~d. A copy of any correspondence between the Company, the Customer, and/or the ACC.

This record shall be maintained for a minimum period of one (1) year and shall be available for inspection by the ACC.

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS
(continued)

~~2.~~B. Customer Bill Disputes

1. Any Customer who disputes a portion of a bill rendered for gas service shall pay the undisputed portion of the bill prior to the delinquent date of the bill, and notify the Company's designated representative that any unpaid amount is in dispute.

2. Upon receipt of the Customer's notice of dispute, the Company shall:

   a. Notify the Customer within five (5) ~~working~~ business days of the receipt of a written dispute notice.

   b. Initiate a prompt investigation as to the source of the dispute.

   c. Withhold disconnection of service until the investigation is completed and the Customer is informed of the results. Upon request of the Customer, the Company shall report the results of the investigation in writing.

   d. Inform the Customer of the right of appeal to the ACC.

3. Once the Customer has received the results of the Company's investigation, the Customer shall submit payment within five (5) ~~working~~ business days to the Company for any disputed amounts. Failure to make full payment shall be grounds for termination of service.

~~3.~~C. ACC Resolution of Service and/or Bill Disputes

~~A.~~1. In the event a Customer and the Company cannot resolve a service and/or bill dispute, the Customer shall file a written statement with the ACC. By submitting such written notice to the ACC, the Customer shall be deemed to have filed an informal complaint against the Company.

~~B.~~2. Within thirty (30) days of the receipt of a written statement of Customer dissatisfaction related to a service or bill dispute, a designated representative of the ACC shall endeavor to resolve the dispute by correspondence and/or by telephone with the Company and the Customer. If resolution of the dispute is not achieved within twenty (20) days of the ACC representative's initial effort, the ACC shall hold an informal hearing to arbitrate the resolution of the dispute. The informal hearing shall be governed by the following rules:

   ~~A.~~a. Each party may be represented by legal counsel, if desired;

   ~~B.~~b. All such informal hearings may be recorded or held in the presence of a stenographer;

SECTION NO. 12
ADMINISTRATIVE AND HEARING REQUIREMENTS
(continued)

~~C.~~c. All parties will have the opportunity to present written or oral evidentiary material to support the positions of the individual parties; and

~~D.~~d. All parties and the ACC's representative shall be given an opportunity for cross-examination of the various parties.

The ACC's representative will render a written decision to all parties within five (5) ~~working~~ business days after the date of the informal hearing. Such written decision of the ACC's representative is not binding on any of the parties and the parties will still have the right to make a formal complaint to the ACC.

~~C.~~3. The Company may implement normal termination procedures if the Customer fails to pay all bills rendered during the resolution of the dispute by the ACC.

~~D.~~4. The Company shall maintain a record of written statements of dissatisfaction and their resolution for a minimum of one (1) year and make such records available for ACC inspection.

~~4.~~D. Notice by Company of Responsible Officer or Agent

1. The Company shall file with the ACC a written statement containing the name, business address and telephone numbers (office and mobile) of at least one officer, agent or employee responsible for the general management of its operations as a Company in Arizona.

2. The Company shall give notice, by filing a written statement with the ACC, of any change in the information required herein within five (5) days from the date of any such change.

SECTION NO. 13
BUDGET BILLING PAYMENT PLAN

A. The Company may, at its option, offer its Customers ~~Residential Customers may elect to participate in the Company's~~ Budget Billing Payment Plan ("Plan") for payment of charges for gas service.

B. ~~Upon Customer request, t~~The Company will develop, upon Customer request, an estimate of the Customer's levelized billing for a twelve (12) month period based on:

1. The Customer's actual consumption history at the service location, which may be adjusted for weather or other known variations. If sufficient history is not available, then an estimate will be prepared based on other similar service locations and Customer's anticipated load requirements; and

2. The applicable Pricing Plan, the estimated gas costs for the Plan year, and applicable taxes.

C. The Company shall provide the Customer with a concise explanation of how the levelized billing estimate was developed, the impact of levelized billing on a Customer's monthly bill, and the Company's right to adjust the Customer's billing for any variation between the Company's estimated billing and actual billing.

D. The Plan's monthly payment shall be determined as follows: Settlement month will be the Customer's anniversary date, twelve (12) months from the time the Customer is set up on the Budget Billing Payment Plan. The Company reserves the right to adjust the remaining monthly Plan semi-annually to reduce the likelihood of an excessive debt or credit balance in rates due to dramatic PGA increases or PGA surcharges.

~~a.~~1. The Company reserves the right to adjust the remaining monthly Plan payments of any Customer at any time if the Company's estimate of the Customer's usage and/or cost varies significantly from the Customer's actual usage and/or cost. Such review may also be initiated by the Customer. Any change resulting from such a review will be effective on a subsequent bill and no further notice is required.

~~b.~~2. The Customer shall continue to pay the monthly Plan payment amount each month, notwithstanding the current gas service charge shown on the bill.

~~c.~~3. Any other charges incurred by the Customer shall be paid monthly when due in addition to the monthly Plan payment.

~~d.~~4. Interest will not be charged to the Customer on accrued debit balances nor paid by the Company on accrued credit balances.

~~e.~~5. Any amount due the Company will be settled and paid at the time a Customer, for any reason, ceases to be a participant in the Plan. If an amount due to the Customer exceeds fifty dollars ($50.00), the Customer has the option to receive a bill credit or a refund; otherwise the credit will remain as a bill credit.

SECTION NO. 13
BUDGET BILLING PAYMENT PLAN
(continued)

~~f.~~6. Any Customer's participation in the Plan may be discontinued by the Company if the monthly Plan payment has not been paid on or before the billing date of the next monthly Plan payment.

~~g.~~7. If a Customer in the Plan shall cease, for any reason, to participate in the Plan, then the Company may refuse that Customer's re-entry in the Plan ~~until the following August or~~ for six (6) months~~, whichever is longer~~.

~~h.~~8. For those Customers being billed under the Plan, the Company shall show, at a minimum, the following information on the Customer's monthly bill:

~~1.~~a. Actual consumption;

~~2.~~b. Amount due for actual consumption;

~~3.~~c. Levelized billing amount due; and

~~4.~~d. Accumulated variation in actual versus levelized billing amount.

SECTION NO. 14
CURTAILMENT PLAN

A. The Company shall use reasonable diligence in its operations to render continuous service to all its Customers other than those Customers served under Pricing Plans expressly permitting interruptions of service for peak shaving purposes. If for any reason, however, the Company is unable to supply the demand for gas in any one or more of its systems, interruptions or curtailments of service shall be made in accordance with the provisions of this section. The Company shall not be liable for damages because of the operation of this section.

B. Applicability

~~2.~~1. The order of curtailment shall be in inverse order of the curtailment priorities set forth in Subsection C below.

~~3.~~2. Curtailment priorities shall apply to both sales and transportation Customers.

~~4.~~3. Customers being served under a discounted transportation or sales rate schedule shall be curtailed first. Customers paying the least will be curtailed first within an affected priority.

~~5.~~4. Each priority shall be curtailed in full before the next priority in order is curtailed.

~~6.~~5. When Priority 1 Customers would be curtailed due to system supply failure (either upstream capacity or supply failure), the Company is authorized to "preempt" deliveries of lower priority transportation Customers' gas and divert such supplies to the otherwise affected Priority 1 Customers. Affected transportation Customers will be curtailed to the same extent as sales Customers of the same priority. Such transportation Customers will be compensated for the preemption of their gas supply by either crediting the Customer's account with a like quantity of gas for use on a subsequent gas day, or by providing a cash payment or credit to the Customer's bill at the cost of gas per unit paid by the Customer. If the gas supply of an alternate fuel-capable transportation Customer is preempted according to this provision, the Company shall provide additional compensation to such Customer for the incremental cost of using the alternate fuel, (the difference between the actual cost of using the alternate fuel and the actual cost of gas paid by the Customer for the preempted gas). Such credit shall be applied to the Company's next scheduled billing after the Customer has furnished adequate proof to the Company concerning alternate fuel costs, replacement volumes, and gas costs.

~~7.~~6. The installation of a cogeneration facility shall not affect the underlying end-use priority of the establishment.

~~8.~~7. Natural gas utilized as compressed natural gas for vehicle fuel shall be classified as a commercial end-use.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

~~9.~~8. Application of curtailment priorities will normally be done on a scheduled basis as part of the daily gas requirement nomination and confirmation routine. Operational emergency curtailment will conform to these priorities to the extent possible and practical.

~~10.~~9. A transportation Customer may be curtailed to the level of actual supply scheduled for that Customer, regardless of end-use priority.

C. Priorities

Priority 1: Residential, small commercial (less than five hundred (500) therms on a peak day), schools, hospitals, police protection, fire protection, sanitation facility, correctional facility, and emergency situation uses.

Priority 2A: Essential agricultural uses as certified by the Secretary of Agriculture.

Priority 2B: Essential industrial process and feedstock uses.

Priority 2C: Large Commercial (five hundred (500) therms or more on a peak day) and storage injection requirements, industrial requirements for plant protection, feedstock, process, ignition and flame stabilization needs not specified in Priority 2B.

Priority 3A: Industrial requirements not specified in Priorities 2, 4, and 5, of less than one thousand (1,000) therms on a peak day.

Priority 3B: All industrial requirements not specified in Priorities 2, 3A, 4, and 5.

Priority 4: Industrial requirements for boiler fuel use at less than thirty thousand (30,000) therms per peak day, but more than fifteen thousand (15,000) therms per peak day, where alternate fuel capabilities can meet such requirements.

Priority 5: Industrial requirements for large volume (thirty thousand (30,000) therms per peak day or more) boiler fuel use where alternate fuel capabilities can meet such requirements.

D. In the event of isolated incidents in order to avoid hazards and protect the public, the Company may temporarily interrupt service to certain Customers without regard to priority or any other Customer classification.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

E. Definitions

1. "Alternate Fuel Capability" – A situation where an alternate fuel can be utilized whether or not the facilities for such use have actually been installed.

2. "Correctional Facility Uses" – A facility, the primary function of which is to house, confine, or otherwise limit the activities of a person who has been assigned to such facilities as punishment by a court of law.

3. "Essential Agricultural Use" – Any use of natural gas which is certified by the Secretary of Agriculture as an "essential agricultural use."

4. "Essential Industrial Process and Feedstock Uses" – Any use of natural gas by an industrial Customer as process gas, or as a feedstock, or gas used for human comfort to protect health and hygiene in an industrial installation.

5. "Feedstock Gas" – Natural gas use for which alternate fuels are not technically feasible, such as in applications requiring precise temperature controls and precise flame characteristics. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

6. "Fire Protection Uses" – Natural gas used by and for the benefit of fire fighting agencies in the performance of their duties.

7. "Flame Stabilization Gas" – Natural gas which is burned by igniters, main gas burners, or warm-up burners for the purpose of maintaining stable combustion of an alternate fuel.

8. "Hospital" – A facility, the primary function of which is delivering medical care to patients who remain at the facility (facility includes nursing and convalescent homes). Outpatient clinics or doctors' offices are not included in this definition.

9. "Ignition Gas" – Natural gas supplied to gas igniters in boilers to light main burners, whether the main burners are operated by gas, oil, or coal.

10. "Industrial Boiler Fuel" – Natural gas used in a boiler as a fuel for the generation of steam or electricity.

11. "Industrial Use" – Natural gas used primarily in a process which creates or changes raw or unfinished materials into another form or product, including electric power generation.

12. "Peak Day" – Maximum daily Customer use as determined by the best practical method available.

SECTION NO. 14
CURTAILMENT PLAN
(continued)

13. "Plant Protection Gas" – Minimum natural gas volumes required to prevent physical harm to the plant facilities or danger to plant personnel when such protection cannot be afforded through the use of an alternate fuel. This includes the protection of such material in process as would otherwise be destroyed, but shall not include deliveries required to maintain plant production. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

14. "Police Protection Uses" – Natural gas used by law enforcement agencies in the performance of their duties.

15. "Process Gas" – Natural gas use for which alternate fuels are not technically feasible, such as in applications requiring precise temperature controls and precise flame characteristics. For the purposes of this definition, propane and other gaseous fuels shall not be considered alternate fuels.

16. "Sanitation Facility Uses" – Natural gas use in a facility where natural gas is used to a) dispose of refuse, or b) protect and maintain the general sanitation requirements of the community at large.

17. "School" – A facility, the primary function of which is to provide instruction to regularly enrolled students in attendance at such facility. Facilities used for both educational and non-educational activities are not included under this definition unless the latter activities are merely incidental to the provision of instruction.

18. "Small Commercial Establishment" – Any establishment (including institutions and local, state, and federal government agencies) engaged primarily in the sale of goods or services where natural gas is used:

    a. in amounts of less than fifty (50) MCF on a peak day; and

    b. for purposes other than those involving manufacturing or electric power generation.

19. "Storage Injection Gas" – Natural gas injected by a distributor into storage for later use.

SECTION NO. 15
RATES AND UNIT MEASUREMENT

~~2.~~A. The rates and charges for gas service shall be those of the Company legally in effect and on file with the ACC.

~~3.~~B. All rates set forth in the Company's Pricing Plans are stated in therms. Unless otherwise provided by special contract, the number of therms delivered to any Customer shall be determined by measuring the volume of gas passing through that Customer's meter during the month to the nearest one hundred (100) cubic feet and applying the procedures of Section 8.H of these Rules and Regulations.

~~4.~~C. The unit of volume for measurement of gas sold shall be one (1) Cubic Foot of gas, as defined in Section 2, Subsection A.13 of these Rules and Regulations. The volume of gas measured shall be rounded to the nearest one hundred (100) cubic feet for any given period.

~~5.~~D. The atmospheric pressure will be the standard atmospheric pressure for the location.

~~6.~~E. The standard serving pressure shall be seven (7) inches of water pressure (four (4) ounces per square inch gauge) above the atmospheric pressure.

~~7.~~F. The standard temperature of sixty (60) degrees Fahrenheit will be used for volume determination unless stated otherwise under special contract. The Company shall retain the right, but shall not be obligated, to install temperature recording or compensating equipment as part of the measuring facilities. When such temperature recording equipment is used, the arithmetic average temperature of the gas each day, during periods of flow only, shall be used in computing the quantity of gas delivered by that day.

~~8.~~G. The Company, at its own option, may elect to serve a Customer at a pressure higher than the standard serving pressure. The Company shall correct such volume to Standard Conditions by the use of compensating equipment or the use of a factor. The Company retains the right to determine the method used for applying such correction. The factor used to correct the measured volume shall be in accordance with American Gas Association Report 3.

~~9.~~H. The therm conversion factor shall be determined each month and shall be the product of the conversion factor and the most recent heating value content available using the weighted average delivered pressure by office. The weighted average delivered pressure is derived monthly using the delivered pressure for each town code served which is reflective of each town code's elevation, weighted by the sales distribution among assigned gas distribution systems within each respective office. Further explained in Section 8.H. of these Rules and Regulations.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN

A. General Plan

The Company will annually sample groups of meters to determine the continuing accuracy and performance of the group. Certain safe and proper standards are defined, and meters will remain in service as long as they meet these standards. This program will allow the Company to obtain all the useful service available from a meter until the meter no longer meets prescribed standards. At that time, then it is proper for the meter to be removed, tested, repaired, or retired.

This procedure is for the purpose of testing and controlling the performance of small gas meters that are two hundred fifty (250) CFH or less. The program will identify and remove meters that do not meet the standards of performance described in Subsection D below, and identify and retain in service meters that do meet or exceed the stated standards. Meters are classified into groups, samples of each group are tested annually, and groups are removed from service when they do not meet performance standards.

B. Meter Groups

~~A.~~1. Meters are segregated into groups on the following basis:

a. Year last repaired or purchased;

b. Manufacturer;

c. Diaphragm type (leather or synthetic), when available; and

d. Geographic district.

~~B.~~2. For meters repaired or purchased in a given year, the groups are established at the beginning of the next year. When a new group being established is found to contain less than one thousand (1,000) meters, this group may be combined with another group having meters of the same or similar operating characteristics. An existing group may be divided into two or more groups, if experience characteristics of part of the group are sufficiently different from the remainder of the group to warrant separate sampling of the parts.

C. Sampling

A representative random sample is selected from each group of meters. The samples are used in determining the performance of each group of meters each year. If the initial order for meter removals does not produce an adequate sample, additional meters are drawn on a random basis. These meters are combined with the original sample for determining acceptability of the group. Samples are taken annually from all groups that have been in service for ten years or longer.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN
(continued)

D. Performance Standard

The criteria for acceptability for a group to remain in service are:

~~a.~~1. No more than ten percent (10%) of the meters tested in the group are more than three percent (3%) fast.

~~b.~~2. At least eighty percent (80%) of the meters tested in the group are within +/- three percent (3%) of zero error. This results in a condition wherein a minimum of ninety percent (90%) of the meters remaining in service are either within +/- three percent (3%) or are more than three percent (3%) slow and in the Customer's favor.

E. Records

The test results for each group are kept in appropriate records that indicate the number of meters in the sample versus the test results, expressed as a percent.

F. Removal of Groups

1. A test result falling on or above the prescribed standards is satisfactory and the groups will remain in service.
2. A test falling below the prescribed standards is not satisfactory and the group will be removed from service.
3. The Company, for its convenience, may remove a group (or part of a group) even though the group meets the requirements for remaining in service.

SECTION NO. 16
GAS METER TESTING AND MAINTENANCE PLAN
(continued)

G. Annual Reports

A report of the meter performance control program will be filed annually with the ACC, which will contain the following:

1. A description of each group, showing its identification, size and composition;

2. A list of the total number of meters tested, at Company initiative or upon Customer request;

3. A detailed list of the performance results of each group, showing the number of meters in the group, the number of meters removed during the year, the number of meters not tested (dead, non-registering, damaged, etc.), the number or meters tested, the number of meters slow - minus three percent (-3%), the number of meters accurate, the percent of meters accurate, the number of meters fast - plus three percent (+3%), and the percent of meters fast;

4. A summary of results for each year of service; and

5. A summary or the overall results.

SECTION 17
STATEMENT OF ADDITIONAL CHARGES

A. Trip Charge:

1.	Service Transfer	$20.00
2.	Collection Fee	$20.00
3.	Customer-Requested Meter Reread	$20.00
4.	Multiple Attempts to Connect	$20.00

B. Service Establishment, Re-establishment, or Reconnection

During Regular Business Hours	$35.00
After Regular Business Hours (same day request scheduled)	$50.00

C. Special Call Out (Minimum one (1) hour)

Per hour	$70.00

D.	Customer-Requested Meter Test	$90.00
E.	NSF Check	$10.00
F.	Late Payment Finance Charge	1.5%
G.	Interest on Customer Deposits	One-year Treasury Constant Maturities rate

Regular Business Hours are defined as non-holiday weekdays from 8:30 a.m. to 4:30 p.m.

EXHIBIT

GAS-2

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

RECEIVED

2007 NOV -2 P 3: 54

AZ CORP COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
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COMMISSIONERS
MIKE GLEASON – Chairman
WILLIAM A. MUNDELL
JEFF HATCH–MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF HOOK-UP FEES FOR ELECTRIC AND NATURAL GAS UTILITIES.	))))	DOCKET NO. E-00000K-07-0052 DOCKET NO. G-00000E-07-0052 **COMMENTS**

Tucson Electric Power Company ("TEP"), UNS Gas, Inc., ("UNS Gas") and UNS Electric, Inc. ("UNS Electric"), collectively the "Companies", through undersigned counsel, hereby submit their comments regarding Hook-Up Fees, as requested during the Arizona Corporation Commission's ("Commission") workshop on October 18, 2007.

I. INTRODUCTION.

At the conclusion of the Hook-Up Fees workshop interested parties were asked to provide written comments by November 1, 2007 regarding various issues that were raised and questions that were posed.

As a general principle, the Companies believe that the purposes of proposed Hook-Up Fees, namely to have growth pay substantially for all of its costs, could be accomplished by using well crafted line extension policies coupled with rates that are based on relevant costs of service. The Companies, in response to Commissioners' statements, are also looking into other ways that growth may fund growth including Hook-Up Fees.

TEP, UNS Electric and UNS Gas, are each separate entities with different growth experiences. Each company has an existing Line Extension Policy. The Companies will continue to refine their respective policies, update the embedded cost to serve in existing rates, and consider Hook-Up Fees in an effort to equitably treat new customers as they join the service territories of each utility.

II. COMMISSION QUESTIONS.

1. How do we pay for growth?

- Rates?
- Hook-Up Fees?
- Other?

Response:

The Companies believe that growth should be evaluated on an individual customer and project basis. It is appropriate to have policies in place to assure that such growth, based on the rates in effect at the time of the project, will fairly contribute toward the recovery of the cost to serve that growth over the life of the service assets and provide for recovery of an equitable portion of distribution system costs. Essentially, to the extent that rates currently in effect to recover the average cost to serve existing customers is not adequate to recover the cost to serve new customers, we must seek to determine the nature of the unrecovered or under-recovered costs and functions of the associated facilities. Specifically, we must ask whether new facilities or expenditure necessitated by growth serve most or all customers on the system (e.g., on a vertically integrated system, new generation needed for growing load), just a few "new" customers in question (e.g., a pad mounted transformer serving a few larger homes in an outlying development), or some intermediate subgroup of customers (e.g., a substation serving customers in the Rancho Vistosa subdivision of Tucson). Generally, as one moves down the system, facilities serve smaller groups of customers.

One can argue that additional expenditure supporting facilities serving all customers – such as the new generation for a vertically integrated system – should not be recovered disproportionately from new customers through Hook-Up Fees. Traditionally, all customers within a class pay the same prices, and there is no penalty for being a "new" customer. An existing customer, after all, could choose to leave the system instead, thus

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freeing up resources and deferring the generation addition. Prospective incremental costs can be reduced either when a potential new customer chooses not to move in, or when an existing customer chooses to leave. The existing customer has no property right entitling him to preferential treatment in the allocation of costs based on when he connected to the system.

Recovery of generation costs through Hook-Up Fees may also be problematic if direct access becomes viable. Competitive Energy Service Providers ("ESPs") will have no reason to distinguish old from new customers. Direct access could lead to a reduction or complete waiver of generation related Hook-Up Fees by ESPs driven to aggressively compete for load. Moreover, any governmental attempt to impose some type of "new customer" / "old customer" differential interferes with the functioning of competitive markets – and extracting the benefits from viable competitive markets is, and should be, the driving force and motivation behind direct access.

Neither generation nor transmission should be recovered from Hook-Up Fees directed at new customers. Generation recovery through Hook-Up Fees is inappropriate for the aforementioned reasons. The use of Hook-Up Fees for transmission recovery is inappropriate because transmission is regulated by the Federal Energy Regulatory Commission ("FERC").

At the other extreme from generation and transmission are those costs associated with facilities serving just a small number of customers, typically contiguous customers. These costs typically are distribution or customer- related costs. Traditionally these costs have been collected through system-wide rates, where all customers in a class pay the same rate, or under the approved line extension guidelines providing for Contributions in Aid of Construction or Advances in Aid of Construction. The Companies believe that this process

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has worked well in the past, and can continue to provide the framework for cost recovery from new customers. A continuation of this framework is the Companies' preferred method for cases of typical Arizona growth (i.e., assuming that a utility's financial integrity is not threatened by extraordinary growth and/or significant regulatory lag). The Companies appreciate the Commission's concern, and request that any Hook-Up Fee program will allow for case-by-case variation in the load characteristics of new customers and the impact of customers on system operation and design. The policy should be designed to assure that new customers pay toward their service or project to assure existing customers will not unfairly subsidize new service. Clearly, this will be difficult to implement because there will be differences in opinions on how costs should be allocated among customers. When joint costs must be divided, there is often no unique optimal solution in economic theory. Consequently, parties are likely to differ on what constitutes a fair solution.

Finally, it is important that the Commission consider an economic concept at the theoretical heart of the Hook-Up Fee issue: externalities. Externalities arise when parties to an agreement fail to consider costs or benefits attributable to the agreement that affect third parties. Negative externalities arise when the third party experiences more costs than benefits as a result of the agreement.

In the context of Hook-Up Fees, the Commission is asking whether a utility's connection of a new customer imposes a negative externality on existing customers, with respect to the cost of utility service. If one is willing to move away from the tradition of system-wide average rates, one may propose a Hook-Up Fee in an effort to hold existing customers harmless from utility increases attributable to the new customer addition. Economic theory suggests that some or all of the Hook-Up Fee may be passed on to the new customers (depending on the elasticity of supply and elasticity of demand for new homes). As a result

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of the higher costs of new homes, the net benefit of relocating to this service territory is reduced and fewer people will move to affected new homes in the Hook-Up Fee territory. This may impose a disproportionate burden on lower income consumers new to the service territory, since the Hook-Up Fee is regressive (i.e., it imposes a higher percentage burden on lower income customers). Were the utility-related distribution/customer service-related negative externality the only externality, one might have a basis to argue that an appropriately set fee would result in a movement toward a socially optimal solution.

However, another economic concept most likely will trump the utility-related negative externality: the multiplier effect. When new people move to an area, they typically help expand the economy, which is advantageous to the area as a whole. New residents spend income, which in turn supports other growth. While the Companies have no estimates on the impact of this multiplier effect in Arizona, typical economic texts and articles indicate that the multiplier effect can be substantial. This multiplier effect positive externality could dwarf the utility-related negative externality. From the standpoint of the community, when the utility connects a new customer, a net <u>positive</u> externality could arise. In simple terms, the community would cheer the arrival of the new customer because he brings more value from economic growth than the cost he imposes on the utility system. This would argue against Hook-Up Fees, and may actually suggest that new load be subsidized. When a broader prospective is considered, the whole rationale behind Hook-Up Fees may be turned on its head. The issues here are broad and complex, and may move into public policy areas beyond the traditional purview of the Commission.

At the risk of being overly simplistic, one should note that states like Nevada and Arizona typically brag about being in the top 5 in growth among the 50 states. Low-growth states like South Dakota and Nebraska bemoan their situations, and struggle to maintain economic viability in small communities. States like Alabama and Kentucky have lured large industrial projects with subsidized infrastructure and/or tax incentives. Forty-six of the fifty states have tax incentives supporting and encouraging growth. The University of Arizona Eller School's Economics and Business Center, supported by our state legislature, presents growth as a good thing at its annual meeting. The Companies' point is simple here: conventional wisdom seems to hold that growth is a good thing, which will yield positive externalities.

The Commission should realize that a Hook-Up Fee may be at odds with more broad goals and objectives of this state. In the event that the Commission takes a more narrow approach by focusing on utility costs, the Companies hope that this can be accomplished with well designed line extension policies and/or in combination with socially optimal Hook-Up Fees and customer advances.

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2. What are the fairness and equity issues associated with imposing or not imposing Hook-Up Fees?

a. Is it more equitable to have current utility customers pay through their rates?

b. Is it more equitable to assign those costs to new customers for whom the infrastructure must be built?

Response:

Please see the response to the first question. Hook-Up Fees may be inconsistent with system-wide rates, the long-established, traditional approach that is already in place. Fairness is in the eye of the beholder. There may be disagreement on what is "fair", and even what "fair" means.

Assuming Hook-Up Fees are established, if Hook-Up Fees are designed as a one-size-fits-all, there could be considerable equity issues. A few simple examples would be: (i) a new home placed where a home formerly was; (ii) a new home in an established neighborhood;

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(iii) a new commercial building where a former commercial building was; or (iv) a new commercial building in an established business development. As stated above in response to the first question, this is why the Companies prefer line extension policies designed to give more consideration to the circumstances of each individual Company and the specifics of each new service or project.

3. Should Hook-Up Fees be limited to extraordinary growth areas only? How do we define extraordinary growth?

Response:

The extraordinary growth the Companies are concerned with is growth that could adversely affect the financial integrity of the utilities. Hook-Up Fees may be helpful to a utility in cases of extraordinary growth and/or significant regulatory lag, and where an injection of cash is necessary to protect the financial integrity of the utility. In this circumstance, the financial integrity problem arises because of regulatory lag; the embedded cost in current rates cannot be adjusted quickly enough to generate the proper revenue required for the expenditures associated with serving the growing customer base.

Some possible solutions include:

1. Interim rate relief;
2. Construction Work In Progress;
3. Future test years;
4. Faster action on rate requests; and
5. Accelerated Depreciation.

4. What are the economic development implications?

- Who is helped?
- Who is hurt?

Response:

The Companies have not performed studies or analyses which would put them into an informed position to estimate the economic impact of varying Hook-Up Fees. However, economic theory suggests that the higher the fee, the greater the potential to see a detrimental impact on the housing market in the service territory where the fee is applicable. Negative impacts on the housing market can have ripple effects beyond the housing sector in faster growing areas. For example, reduced land and housing prices reduce area property owners' real wealth and access to credit, thus possibly leading to a contraction in the area's economy due to reduced aggregate demand. The key point here is that the detrimental effects may spread far beyond the individual or group that bears the initial impact.

5. What are the implementation issues?

- Is a phase-in period necessary?
- How should the phase-in be properly done?

Response:

There are always issues and implications when initiating a new fee. Given the potential impact on the state's economy, which is accustomed to high growth, the potential for quickly felt negative impacts in the housing sector, the multiplier effect which may be contractionary, and the regressive nature of this fee which disproportionately affects newly arriving low-income Arizonans, the Companies urge cautious movement toward any implementation.

6. What are the unique implications of assessing Hook-Up Fees to gas companies?

Response:

The obvious complexity when considering Hook-Up Fees for gas companies is the ability of customers to choose alternative energy sources. Given that gas companies are less capital intensive than electric companies, there is even less justification for gas Hook-Up Fees than for electric Hook-Up Fees, except in the type of extraordinary cases outlined in response to question 3.

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7. Effectiveness of Hook-Up Fees:

- Full or limited benefit? E.g. tax implications

Response:

The effectiveness of Hook-Up Fees to reduce future rate impacts and tax implications would be determined by how they were treated in a rate case, what costs are being recovered by the fees, and the ultimate impact on customer growth.

8. What are the competitive issues or concerns?

Response:

To the extent there are alternative providers or alternative sources of energy within the service territories of the Companies that do not require a Hook-Up Fee, it could impact customers' decisions as to where to locate and/or what energy source to use. From an economic standpoint, the Hook-Up Fee may increase the cost of growth, even though growth may provide a positive externality. Hook-Up Fees and growth have implications beyond the bounds of utility service.

9. Would Hook-Up Fees create customer confusion?

- What customer education would be necessary?

Response:

The customers should be informed of a new Hook-Up Fee and should be given adequate information to allow them to understand why the fee is being implemented.

10. What types of infrastructure should be included in a hook-Up fee?

Response:

As previously discussed, the Companies have not agreed that any fee is in the public interest. In the event that the fee has a net negative societal benefit, customers benefit from minimizing the amount of infrastructure recovered through these fees. Generation and transmission costs should not be recovered through the fee. If the Commission desires to recover some infrastructure costs, it should be limited to customer service and distribution assets. Transmission assets are currently regulated by FERC for TEP and UNS Electric, and it would be inappropriate to collect the cost of transmission services through a rate not approved by FERC. Generation assets pose other concerns, as discussed in response to the first question. The Companies encourage the Commission to make decisions on the future structure of electric utilities in Arizona. Hook-Up Fee design will vary with utility structure and the viability of Direct Access. In the event that generation is divested, the local distribution company need not calculate a Hook-Up Fee generation component. Generation will be competitively supplied, and generation suppliers will have no interest in whether the customers are old or new. Given that generation would be provided in a competitive market, it could be argued that a governmental entity or regulatory agency would be hard-pressed to set some price differential between old and new customers.

To the degree Hook-Up Fees are implemented, they should conform to marginal costs of service. If one thinks of the utility in terms of the vertically-integrated company, then one can either base marginal cost of the next planned unit or on a slice of the system, which will be some kind of weighted average accounting for plant types and in-service dates. The Companies suggest that the pros and cons of different approaches be argued on a case-by-case basis. A single approach should not be established at this time.

11. Should Hook-Up Fees attempt to pay for a new customer's full incremental cost?

Response:

No. Hook-Up Fees recovering full incremental costs from new customers will result in the new customer covering all his cost, plus a share of the embedded costs of serving the existing customers. The cost to serve the existing customer is recovered in existing rates. This seems extraordinarily inequitable. Ironically, this customer may provide positive

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externalities to society as a whole when societal costs and benefits are added.

12. Should different sized customers pay different Hook-Up Fees?

Response:

Yes, to the extent that Hook-Up Fees are implemented.

13. What is your opinion about APS' proposal to treat Hook-Up Fees as revenue?

Response:

The Companies have questions about the proposal. What are the costs that will be recovered through the proposed Hook-up Fee? When would the revenues be recognized for Generally Accepted Accounting Principles ("GAAP") purposes (based on the cost it is developed to recover)? Will the Companies be able to reasonably rely upon the revenue source, especially given the downturn in the housing market and the unknown impact of adding additional cost to constructing a new home?

III. CONCLUSION.

The Companies respectfully request that the Commission consider these comments. The Companies look forward to participating in future discussions regarding the use of Hook-Up Fees for Arizona electric and natural gas utilities in the state of Arizona.

RESPECTFULLY SUBMITTED this 2nd day of November 2007.

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UNS GAS, INC.

By [signature] for

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EXHIBIT

GAS-3

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan T-1
Transportation of Customer-Secured Natural Gas

AVAILABILITY

This pricing plan is available to any qualifying Customer for transportation of natural gas by the Company from existing interconnects between the Company and upstream pipelines (herein called Receipt Point) to the Delivery Point(s) on the Company's system throughout its certificated Arizona Gas Service Area under the following conditions:

~~(a)~~1. The Company has available capacity to render the requested service without construction of any additional facilities, except as provided by ~~Section 8 of~~ this pricing plan under Facility Additions..

~~(b)~~2. The Customer has demonstrated to the Company's satisfaction the assurance of natural gas supplies and third-party transportation agreements with quantities, and for a term compatible with the service being requested from the Company.

~~(c)~~3. The Customer and the Company have executed a Transportation Agreement, and the Customer is to be the End-User.

~~(d)~~4. The Customer's gas to be transported is greater than 120,000 therms per year. A Customer receiving service from the Company at multiple locations may aggregate meters with annual consumption of no less than 50,000 therms per meter to qualify for this service provided that all meter locations are served under a single entity. In addition, the annual consumption of customers that are aggregated must be greater than 120,000 therms per year.

APPLICABILITY

This pricing plan shall apply to gas transported by the Company for Customer pursuant to the executed service agreement.

1. The basic transportation service rendered under this pricing plan shall consist of:

   (a) The receipt by the Company for the account of the Customer of the Customer's gas at the Receipt Point;

   (b) The transportation of gas through the Company's gas system for the account of the Customer; and

   (c) The delivery of gas after transportation by the Company for the account of the Customer at the Delivery Point(s).

2. Transportation: Service is firm and uninterrupted except for the following:

   (a) Curtailment in accordance with the Company's curtailment priority procedures;

   (b) When the Company determines it has insufficient capacity on its system or from its upstream pipeline; or

   (c) Customer's gas supply to the Company is insufficient to meet its requirement.

3. Any Customer served under this pricing plan that requests service under a sales pricing plan is ineligible to return to transportation service for a period of not less than twelve (12) months.

RATES

A discount from the following rates may be offered at the sole discretion of the Company if such discount is in the best interest of the Company and its ratepayers. The maximum amount that the Customer shall pay the Company monthly will be the sum of the following charges:

Customer Charge per Month: $105~~0~~.00 per meter

Volume Charge: An amount equal to the applicable unit transportation rate for each therm of Customer-secured gas metered and delivered to the Customer. The unit rates shall be as set forth in the currently effective Pricing Plan Summary. The volume charge will consist of the following:

(a) An amount equal to the applicable unit sales margin for each therm as set forth in the Customer's otherwise applicable sales pricing plan for each meter. This volume charge will cover the Company's Delivery Charge as specified in the currently effective gas sales pricing plan but not including the base cost of gas specified therein.

~~In no event will the minimum charge be less than that set forth in Section 4.1 below.~~

(b) An amount to reflect lost and unaccounted for gas as determined by the differential between the gas costs on a sales basis and gas costs on a purchase basis determined in the development of the currently effective, Purchased Gas Adjustment ("PGA"), Rate Rider No. RR-1. The Company, at its sole option, may allow lost and unaccounted for gas to be paid in kind.

(c) Any applicable imbalance charges as specified in Payment For Excess Quantities ~~Section 7~~ of this pricing plan.

(d) Any charges from upstream pipeline transporters or suppliers which have been incurred by the Company in excess of those specified in section (c) above and are deemed by the Company to be applicable to the transportation service rendered for the Customer under these pricing plans.

Minimun Charge: The minimum charge will be the Basic Customer Charge per Month plus $0.005 per therm.

ADMINISTRATIVE PROCEDURES

1. Processing Requests for Transportation Service: Requests for transportation hereunder shall be made by, and shall be deemed to be complete upon, the Customer providing the following information to the Company:

(a) Gas Quantities: The Maximum Daily Quantity applicable to the receipt point and the Maximum Daily Quantity applicable to each delivery point and estimated total quantities to be received and transported monthly over the delivery period should be stated individually in therms for each receipt point.

(b) Delivery Point(s): Point(s) of delivery by the Company to the Customer.

(c) Term of Service:
~~(i)~~i. Date of service requested to commence;
~~(ii)~~ii. Date service requested to terminate, if known; and
~~(iii)~~iii. Minimum term for transportation service shall be twelve (12) months.

(d) Performance: A statement from the Customer certifying that the Customer has or will have title to the gas to be delivered to the Company for transportation and has entered into or will enter into those arrangements necessary to assure all upstream transportation will be in place prior to the commencement of service under a Transportation Agreement. The Customer's Agent, if any, must be named.

Upon receipt of all of the information specified above, the Company shall prepare and tender to the Customer for execution a Transportation Agreement. If the Customer fails to execute the Transportation Agreement within thirty (30) days of the date tendered, the Customer's request shall be deemed null and void.

OPERATING PROCEDURES

~~I.~~1. Nominating and Scheduling of Gas Receipts and Deliveries: The Customer shall be responsible for contacting the upstream pipelines to arrange for the nominating and scheduling of receipts and deliveries hereunder, provided, that the Customer may designate one (1) other party to serve as his agent for such purpose.

The Customer or Customer's Agent shall be responsible for submitting nominations to the upstream pipeline and notifying the Company's designated representative in writing no later than one (1) hour prior to the upstream pipeline's nomination deadlines set forth in their FERC approved tariff. Such communication shall occur prior to the first of the month and within the month if there are changes to the nominations. The Customer is responsible for confirming the timely receipt of this information by the Company. The Company will confirm whether it has sufficient operational capacity to deliver all or a portion of the Customer's gas.

~~ii.~~2. Operating Information and Estimates: Upon request of the Company, the Customer shall from time to time submit its best estimates of the daily, monthly and annual volumes of gas to be transported; including peak day requirements, together with such other operating data as the Company may require in order to schedule its operations.

The Company may require large Customers whose contractually allowed maximum daily quantity exceeds 10,000 therms per day, whose usage is not predictable based on weather, and whose ratio of high to low daily usage exceeds ten (10) to inform the Company within 2 hours of any initiation or termination of gas usage exceeding an hourly rate of 1,000 therms per hour.

~~iii.~~3. Quantities: All quantities referred to under ~~in~~ Operating Procedures of this pricing plan ~~Section 6~~ shall be provided as dekatherms ("DTH") (one million British Thermal Units).

4. Deliverability: The Company shall not be liable for its failure to deliver gas when such failure is due to unavailability of gas supply or interruption of third party transportation services.

5. Other Operating Procedures: The Company may require additional information or enforce other operating procedures as deemed necessary in the Company's sole judgment, in order to coordinate gas volumes and the movement of gas through the upstream pipeline system to the Company's Arizona Gas Service Area. These additional operating procedures may be enforced upon verbal notice to each Customer or the Customer's Agent with twenty-four (24) hour notice of implementation.

6. Balancing: Balancing of thermally equivalent volumes of gas received and delivered shall be achieved as nearly as feasible on a daily basis, taking into account the Customer's right, subject to prior Company approval, to vary receipts and deliveries across the Company Distribution System. Customer monthly imbalances are defined as the difference between the Customer's total monthly metered quantities and the Customer's total scheduled transportation quantity. Customers are provided a monthly operating window, under which the Customer's cumulative imbalances must be within plus or minus 5 percent (+/- 5%) of the month's total of daily scheduled transportation quantities, plus any Company-approved imbalance adjustment quantity, or 1,5000~~0,000~~ therms, whichever is greater. Imbalances established in excess of the applicable monthly operating window will be subject to imbalance charges as specified in Payment for Excess Quantities ~~Section 7~~ of this pricing plan. However, if the Customer has an imbalance outside this limit and contacts the Company before the end of the last business day of the month, the Customer will have a "cure period" of an additional 30 days to bring its imbalance within the limits before any imbalance charges specified in Payment for Excess Quantities ~~Section 7~~ are applied. Customer is then ineligible for a "cure period" for the following month._ If in the Company's sole good faith judgment and operating conditions permit, the Company will increase the monthly operating window. Any imbalance (plus or minus) carried forward shall be considered first through the meter during the next daily or monthly period, as applicable.

Upon Customer request, the Company will permit electronic read-only access to the telemetering facilities described in Facility Additions of this pricing plan ~~Section 8~~ or provide daily meter reads each calendar day.

7. Adjustments: Periodically, volume adjustments may be made by the upstream pipelines or the Customer's agent. Therefore, actual daily volumes invoiced will be compared with daily nominated volumes. Should adjustments to the nominated volumes become necessary, such adjustments will be applied to the nomination for the month in which the volumes were delivered to the Customer for the purposes of determining the applicability of the provisions of this pricing plan.

8. Customer Default: The Company shall not be required to perform or continue service on behalf of any Customer that fails to comply with the terms contained in this pricing plan and the terms of the Customer's Transportation Service Agreement with the Company. The Company shall have the right to waive any one or more specific defaults by any Customer under any provision of this pricing plan or the service agreement, provided, however, that no such waiver shall operate or be construed as a waiver of any other existing or future default or defaults, whether of a like or different character.

9. Operational Curtailment: The Company reserves the right to impose, at any time, any reasonable operating conditions upon the transportation of the Customer's gas which the Company, in its sole good faith judgment, deems necessary to maintain safe and efficient operation of its distribution system, or to make the operating terms and conditions of service hereunder compatible with those of its upstream pipelines. Under such circumstances, the following conditions shall apply:

   (a) Any Customer that does not comply with a notice of operational curtailment shall be subject to, in addition to any otherwise applicable charges, a penalty of $10.00 per DTH for all unauthorized quantities during the curtailment period.

   (b) The Company shall endeavor to provide notice of such operational curtailment forty-eight (48) hours prior to the commencement of the delivery of gas.

   (c) Notwithstanding condition (b), the Company may impose an operational curtailment on the current gas day. In the event an operational curtailment is imposed on the current gas day, a minimum one-hour grace period will be allowed before penalties begin to apply.

PAYMENT FOR EXCESS QUANTITIES

1. Customers will be assessed imbalance charges if an imbalance exists in excess of the applicable monthly operating window under the conditions set forth in Balacing described as part of Operating Procedures ~~Section 6.6~~ herein. The portion of any imbalance quantity established by a Customer in excess of the applicable monthly operating window is defined as an excess imbalance quantity. The imbalance charge will be based on the Company's short term purchases, where short term purchases are defined as gas for which the price is determined in the calendar month of use. In addition to the charges payable under this pricing plan, any monthly excess quantity shall be billed as follows:

(a) Positive Excess Imbalance

A positive excess imbalance exists when the Customer's scheduled transportation quantity exceeds the Customer's metered quantity by more than the applicable monthly operating window. The excess imbalance shall be retained by the Company and eliminated after the Customer's bill is credited as follows:

(i) The price of the positive imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's least expensive short term purchases (including all upstream pipeline fuel and variable costs) for the aggregate positive imbalance volume associated with all T-1 customers. This weighted average cost per therm will be multiplied by the Customer's positive imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Positive" column in Table 1 below.

(b) Negative Excess Imbalance

A negative excess imbalance exists when the sum of the Customer's scheduled transportation quantity is less than the metered quantity by more than the applicable monthly operating window. The excess imbalance shall be eliminated after the Customer is billed as follows:

(i) The price of the negative imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's most expensive short term purchases (including all upstream pipeline fuel, variable and capacity costs, at a 100% load factor) for the aggregate negative imbalance volume associated with all T-1 customers. This weighted average cost per therm will be multiplied by the Customer's negative imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Negative" column in Table 1 below.

Table 1

Percentage Excess Imbalance	Positive	Negative
Equal to or less than 5%	100%	100%
Over 5% and less than or equal to 15%	90%	110%
Over 15% and less than or equal to 20%	80%	120%
Over 20% and less than or equal to 30%	70%	130%
Over 30%	60%	140%

2. Should the Customer cease to utilize transportation service under this pricing plan, the entire remaining imbalance shall be settled pursuant to section Payment For Excess Quantities herein.~~Section 7.1.~~ For purposes of this settlement, no operating window applies.

3. Under no circumstances shall the ~~S~~section Payment For Excess Quantities ~~7.1~~ above be considered as giving the Customer any right to take excess quantity gas, other than as provided in Operating Procedures ~~by Section 6.6~~ hereof, nor shall the s~~S~~ection Payment For Excess Quantities ~~7.1~~ or payment thereunder be considered as a substitute for any other remedy available to the Company against the offending Customer for failure to respect its obligation to stay within its authorized quantities.

FACILITY ADDITIONS

Any facilities which must be installed by the Company to serve the Customer will be constructed in accordance with the Rules and Regulations as approved from time to time by the Arizona Corporation Commission. Telemetering facilities on each meter will be installed at the Customer's expense. Customers requiring telemetering facilities shall provide, at the Customer's expense, a dedicated telephone line for the Company's use in communicating with the telemetering facilities and will pay any and all costs associated with that phone line. Further, any existing special surcharges or minimum bill provisions designed to recover the cost of facilities for any Customer shall remain in effect and may serve to increase maximum allowable transportation rate levels pursuant to this pricing plan.

THIRD PARTY CHARGES

The Customer shall reimburse the Company for any charges rendered or billed to the Company by its upstream pipelines and by any other upstream transporter and gas gatherers, either before or after termination of the Transportation Agreement, which the Company, in its sole good faith judgment, determines have been incurred because of the transportation of Customer's gas hereunder and should, therefore, appropriately be borne by the Customer. Such charges, whether levied in dollars or gas, may include, but shall not be limited to, standby charges or reservation fees, prepayments, applicable taxes, applicable fuel reimbursement, shrinkage, lost and unaccounted for volumes, Gas Research Institute surcharges, penalty charges and filing fees.

The Customer will reimburse the Company for all such charges incurred by the Company as rendered, irrespective of the actual quantities of natural gas delivered to the Customer.

CONDITIONS FOR CONVERTING TO T-1 SERVICE

Any qualified Customer converting from gas sales service to service under this pricing plan is subject to the following conditions and requirements:

1. T-1 service will commence at the beginning of the first calendar month following the end of five (5) days after receipt of the customer service change request.

2. Customer will be billed or credited the Customer's pro rata share of the balance in the Company's PGA bank, calculated as follows:

(a) Starting from the later of the month of initiation of gas sales service by the Customer, or the date of initiation of the current PGA bank, through the last month of sales service, the Customer's actual therm usage will be multiplied, on a month-by-month basis, by the difference between the Company's actual commodity cost per therm and the Gas Cost component of the Basic Cost of Service Rate adjusted for any PGA and PGA Surcharge that may be in effect from time to time;

(b) The sum of these monthly calculated values equals the Customer's charge or credit due for conversion to service under this pricing plan;

(c) Customer charge or credit will be paid in twelve (12) equal monthly payments, including interest equal to the carrying charge rate applicable to the PGA bank at the time of conversion to service under this pricing plan.

3. If a Customer converts back to a pricing plan for gas sales service while the PGA Surcharge existing at the time of the switch to T-1 service is still in effect, such Surcharge will not be applicable to the Customer's billed usage for the period it remains in effect. However, any future PGA Surcharge that may be put into effect will be applicable to the Customer's billed usage.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

CONDITIONS

1. Transportation of Customer-owned natural gas hereunder shall be limited to natural gas of equal or higher quality than natural gas currently available from the Company's supplier(s). All gas delivered by the Company to the Customer shall be deemed to be the same quality as that gas received by the Company for transportation.

2. With respect to the Company's capacity to deliver gas at any particular time, the curtailment priority of any Customer served under this pricing plan shall be the same as the curtailment priority established for other Customers served pursuant to the Company's pricing plan which would otherwise be available to such Customer.

EXHIBIT

GAS-4

AVAILABILITY

This pricing plan is only available to any qualifying Customer for transportation of natural gas by the Company from dedicated interconnects between the Company and upstream pipelines (herein called Receipt Point) to the Delivery Point(s) on the Company's transmission system throughout its certificated Arizona Gas Service Area under the following conditions:

1. The Company has or will have available capacity to render the requested service utilizing facilities dedicated to the requirements of the Customer, except as provided under Facility Additions ~~by Section 8~~ hereof;

2. The Customer has demonstrated to the Company's satisfaction the assurance of natural gas supplies and third-party transportation agreements with quantities and for a term compatible with the service being requested from the Company;

3. The Customer and the Company have executed a Transportation Agreement, and the Customer is to be the End-User;

4. The Customer's requirement for gas to be transported is greater than 1,000 therms per day or 120,000 therms per year; and

5. The Customer is not taking service through dedicated facilities under the provisions of a special contract approved by the Arizona Corporation Commission ("ACC").

6. The Customer is classified as a utility that produces electricity.

APPLICABILITY

This pricing plan shall apply to gas transported by the Company for Customer pursuant to the executed service agreement.

1. The basic transportation service rendered under this pricing plan shall consist of:

   (a) The receipt by the Company for the account of the Customer of the Customer's gas at the Receipt Point;

   (b) The transportation of gas through the Company's gas system for the account of the Customer; and

   (c) The delivery of gas after transportation by the Company for the account of the Customer at the Delivery Point(s).

2. Transportation: Service is firm and uninterrupted except for the following:

   (a) Curtailment in accordance with the Company's curtailment priority procedures;

   (b) When the Company determines it has insufficient capacity on its system or from its upstream pipeline; or

(c) Customer's gas supply to the Company is insufficient to meet its requirement.

3. Any Customer served under this pricing plan is ineligible to obtain sales service without executing a special contract approved by the ACC.

RATES

A monthly net bill at the following rates plus any adjustments incorporated in this pricing plan:

Customer Charge per month:	$105~~0~~.00 per meter

Volume Charge: An amount equal to the applicable unit transportation rate for each therm of Customer-secured gas metered and delivered to the Customer. The unit rates shall be as set forth in the currently effective Pricing Plan Summary. The volume charge will consist of the following:

(a) An amount to fund the Company's low income rate program equal to the portion of the applicable unit sales margin for each therm included in rates as set forth in the Customer's otherwise applicable sales pricing plan for each meter.

(b) An amount to reflect lost and unaccounted for gas as determined by the differential between the gas cost on a sales basis and gas cost on a purchase basis determined in the development of the currently effective Purchased Gas Adjustment ("PGA"), Rate Rider No. RR-1. The Company at its sole option may allow lost and unaccounted for gas to be paid in kind.

(c) Any applicable imbalance charges as specified in Payment For Excess Quantities ~~Section 7~~ of this pricing plan.

(d) Any charges from upstream pipeline transporters or suppliers which have been incurred by the Company in excess of those specified in section (c) above and are deemed by the Company to be applicable to the transportation service rendered for the Customer under this pricing plan.

Reservation Charge: An annual charge to be billed in twelve (12) equal monthly installments equal to the fully allocated costs to provide the dedicated facilities necessary to serve the Customer as described more fully in Rates of this pricing plan~~Section 3.2 below~~.

Determined on the basis of a fully allocated cost study filed with and approved by the ACC in the context of a general rate case except when the request for service is non-coincident with a rate filing. In the latter case, the Reservation Charge will be computed by the Company including the following elements:

(a) Return and income taxes at the rate of return approved by the ACC in the Company's last general rate case computed on the basis of the installed costs of the dedicated facilities plus an allocation of other rate base items including, as appropriate: intangible, general and common plant investment, less any applicable accumulated depreciation and deferred taxes, an allowance for working capital and materials and supplies;

(b) Operations expense including all operating and maintenance expenses, depreciation and amortization expense, taxes other than income related to the dedicated facilities and allocated rate base;

(c) Allocated indirect expense including an appropriate portion of customer accounting, sales and information, and administrative and general expenses; and

(d) Any other allocated costs incurred either directly or indirectly to provide the requested service.

Special Surcharge: An annual charge to be computed on the basis of the twelve (12) months ending September of the prior year and billed beginning in January in equal monthly installments, computed as the sum of the following charges:

(a) The revenue requirements for any additional investments required to provide the service requested by Customer subsequent to the establishment of the currently effective Reservation Charge,

(b) Any non-recurring operating and maintenance expenses associated with the facilities dedicated to the Customer in the previous year, and

(c) Any extraordinary expenses incurred by the Company on behalf of the Customer not included in (a) or (b) above.

Minimum Charge: The minimum charge will be the sum of the Basic Customer Charge per Month, the monthly Reservation Charge and any monthly Special Surcharge.

ADMINISTRATIVE PROCEDURES

1. Processing Requests for Transportation Service: Requests for transportation hereunder shall be made by, and shall be deemed to be complete upon, the Customer providing the following information to the Company:

(a) Gas Quantities: The Maximum Daily Quantity applicable to the receipt point and the Maximum Daily Quantity applicable to each delivery point, and estimated total quantities to be received and transported monthly over the delivery period should be stated individually in therms for each receipt point.

(b) Delivery Point(s): Point(s) of delivery by the Company to the Customer.

(c) Term of Service:
  i. Date service requested to commence;
  ii. Date service requested to terminate, if known; and
  iii. Minimum term for transportation service shall be twelve (12) months.

(d) Performance: A statement from the Customer certifying that the Customer has or will have title to the gas to be delivered to the Company for transportation and has entered into or will enter into those arrangements necessary to assure all upstream transportation will be in place prior to the commencement of service under a Transportation Agreement. The Customer's Agent, if any, must be named.

Upon receipt of all of the information specified above, the Company shall prepare and tender to the Customer for execution a Transportation Agreement. If the Customer fails to execute the Transportation Agreement within thirty (30) days of the date tendered, the Customer's request shall be deemed null and void.

2. Construction Requirements: In the event that the Customer's request for service requires the construction of additional transmission facilities not otherwise addressed in section Payment For Excess Quantities herof, ~~Section 7,~~ Extension of Lines, in the Company's current Rules and Regulations, the following additional provisions may apply:

(a) The Company may request an advance for engineering and design services based on the Company's estimate of the anticipated costs related to the requested dedicated facilities;

(b) Any advance for engineering and design will be refunded to the Customer on commencement of service;

(c) Actual engineering and design costs will be included in the dedicated facilities' costs and recovered as a part of the Reservation Charge;

(d) If the dedicated facilities are not placed in service for any reason, the Company may retain the advance;

(e) Prior to the initiation of construction of the dedicated facilities, the Company will provide an estimate of the total costs and resulting annual costs to Customer;

(f) The Company shall not be liable for any differences between actual construction costs and estimated costs;

(g) Customer may withdraw the request for service prior to initiation of construction; and

(h) The Customer may request that construction cease prior to completion. However, if the dedicated facilities are not completed or placed in service, the Customer is liable for service under the terms of this pricing plan as if the facilities had been completed, based on the total construction costs expended on behalf of the Customer.

OPERATING PROCEDURES

1. Nominating and Scheduling of Gas Receipts and Deliveries: The Customer shall be responsible for contacting the upstream pipelines to arrange for the nominating and scheduling of receipts and deliveries hereunder, provided, that the Customer may designate one (1) other party to serve as his agent for such purpose.

   The Customer or Customer's Agent shall be responsible for submitting nominations to the upstream pipeline and notifying the Company's designated representative in writing no later than one (1) hour prior to the upstream pipeline's nomination deadlines set forth in their FERC approved tariff. Such communication shall occur prior to the first of the month and within the month if there are changes to the nominations. The Customer is responsible for confirming the timely receipt of this information by the Company. The Company will confirm whether it has sufficient operational capacity to deliver all or a portion of the Customer's gas.

2. Operating Information and Estimates: Upon request of the Company, the Customer shall from time to time submit its best estimates of the daily, monthly and annual volumes of gas to be transported; including peak day requirements, together with such other operating data as the Company may require in order to schedule its operations.

3. The Company may require large Customers whose contractually allowed maximum daily quantity exceeds 10,000 therms per day, whose usage is not predictable based on weather, and whose ratio of high to low daily usage exceeds ten (10) to inform the Company within 2 hours of any initiation or termination of gas usage exceeding an hourly rate of 1,000 therms per hour.

4. Quantities: All quantities referred to under Operating Procedures ~~in Section 6~~ shall be provided as dekatherms ("DTH") (one million British Thermal Units).

5. Deliverability: The Company shall not be liable for its failure to deliver gas when such failure is due to unavailability of gas supply or interruption of third party transportation services.

6. Other Operating Procedures: The Company may require additional information or enforce other operating procedures as deemed necessary in the Company's sole judgment, in order to coordinate gas volumes and the movement of gas through the upstream pipeline system to the Company's Arizona Gas Service Area. These additional operating procedures may be enforced upon verbal notice to each Customer or the Customer's Agent with twenty-four (24) hour notice of implementation.

7. ~~(f)~~ Balancing: Balancing of thermally equivalent volumes of gas received and delivered shall be achieved as nearly as feasible on a daily basis, taking into account the Customer's right, subject to prior Company approval, to

vary receipts and deliveries across the Company Distribution System. Customer monthly imbalances are defined as the difference between the Customer's total monthly metered quantities and the Customer's total scheduled transportation quantity. Customers are provided a monthly operating window, under which the Customer's cumulative imbalances must be within plus or minus 5 percent (+/- 5%) of the month's total of daily scheduled transportation quantities, plus any Company-approved imbalance adjustment quantity, or 1,500~~0,000~~ therms, whichever is greater. Imbalances established in excess of the applicable monthly operating window will be subject to imbalance charges as specified under Payment For Excess Quantities~~in Section 7~~ of this pricing plan. However, if the Customer has an imbalance outside this limit and contacts the Company before the end of the last business day of the month, the Customer will have a "cure period" of an additional 30 days to bring its imbalance within the limits before any imbalance charges specified under Payment For Excess Quantities ~~in Section 7~~ are applied. Customer is then ineligible for a "cure period" for the following month. If in the Company's sole good faith judgment and operating conditions permit, the Company will increase the monthly operating window. Any imbalance (plus or minus) carried forward shall be considered first through the meter during the next daily or monthly period, as applicable.

8. Upon Customer request, the Company will permit electronic read-only access to the telemetering facilities described under Facility Additions ~~in Section 8~~ or provide daily meter reads each calendar day.

9. ~~(g)~~ Adjustments: Periodically, volume adjustments may be made by the upstream pipelines or the Customer's agent. Therefore, actual daily volumes invoiced will be compared with daily nominated volumes. Should adjustments to the nominated volumes become necessary, such adjustments will be applied to the nomination for the month in which the volumes were delivered to the Customer for the purposes of determining the applicability of the provisions of this pricing plan.

10. ~~(h)~~ Customer Default: The Company shall not be required to perform or continue service on behalf of any Customer that fails to comply with the terms contained in this pricing plan and the terms of the Customer's Transportation Service Agreement with the Company. The Company shall have the right to waive any one or more specific defaults by any Customer under any provision of this pricing plan or the service agreement, provided, however, that no such waiver shall operate or be construed as a waiver of any other existing or future default or defaults, whether of a like or different character.

11. ~~(i)~~ Operational Curtailment: The Company reserves the right to impose, at any time, any reasonable operating conditions upon the transportation of the Customer's gas which the Company, in its sole good faith judgment, deems necessary to maintain safe and efficient operation of its distribution system, or to make the operating terms and conditions of service hereunder compatible with those of its upstream pipelines. Under such circumstances, the following conditions shall apply:

~~(a)~~12. Any Customer that does not comply with a notice of operational curtailment shall be subject to, in addition to any otherwise applicable charges, a penalty of $10.00 per DTH for all unauthorized quantities during the curtailment period.

~~(b)~~13. The Company shall endeavor to provide notice of such operational curtailment forty-eight (48) hours prior to the commencement of the delivery of gas.

~~(c)~~14. Notwithstanding condition (b), the Company may impose an operational curtailment on the current gas day. In the event an operational curtailment is imposed on the current gas day, a minimum one-hour grace period will be allowed before penalties begin to apply.

PAYMENT FOR EXCESS QUANTITIES

1. Customers will be assessed imbalance charges if an imbalance exists in excess of the applicable monthly operating window under the conditions set forth under Balacing described as part of Operating Procedures ~~in Section 6.6~~ herein. The portion of any imbalance quantity established by a Customer in excess of the applicable monthly operating window is defined as an excess imbalance quantity. The imbalance charge will be based on the Company's short term purchases, where short term purchases are defined as gas for which the price is determined in the calendar month of use. In addition to the charges payable under this pricing plan, any monthly excess quantity shall be billed as follows:

   (a) Positive Excess Imbalance

   A positive excess imbalance exists when the Customer's scheduled transportation quantity exceeds the Customer's metered quantity by more than the applicable monthly operating window. The excess imbalance shall be retained by the Company and eliminated after the Customer's bill is credited as follows:

   (i) The price of the positive imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's least expensive short term purchases (including all upstream pipeline fuel and variable costs) for the aggregate positive imbalance volume associated with all T-2 customers. This weighted average cost per therm will be multiplied by the Customer's positive imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Positive" column in Table 1 below.

   (b) Negative Excess Imbalance

   A negative excess imbalance exists when the sum of the Customer's scheduled transportation quantity is less than the metered quantity by more than the applicable monthly operating window. The excess imbalance shall be eliminated after the Customer is billed as follows:

   (i) The price of the negative imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's most expensive short term purchases (including all upstream pipeline fuel, variable and capacity costs, at a 100% load factor) for the aggregate negative imbalance volume associated with all T-2 customers. This weighted average cost per therm will be multiplied by the Customer's negative imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Negative" column in Table 1 below.

Table 1

Percentage Excess Imbalance	Positive	Negative
Equal to or less than 5%	100%	100%
Over 5% and less than or equal to 15%	90%	110%
Over 15% and less than or equal to 20%	80%	120%
Over 20% and less than or equal to 30%	70%	130%
Over 30%	60%	140%

2. Should the Customer cease to utilize transportation service under this pricing plan, the entire remaining imbalance shall be settled pursuant to section Payment For Excess Quantities herein. For purposes of this settlement, no operating window applies.

3. Under no circumstances shall the section Payment For Excess Quantities above be considered as giving the Customer any right to take excess quantity gas, other than as provided in Operating Procedures hereof, nor shall the section Payment For Excess Quantities or payment thereunder be considered as a substitute for any other remedy available to the Company against the offending Customer for failure to respect its obligation to stay within its authorized quantities.

FACILITY ADDITIONS

Any facilities which must be installed by the Company to serve the Customer will be constructed in accordance with the Rules of Service as approved from time to time by the ACC. Telemetering facilities on each meter will be installed at the Customer's expense. Customers requiring telemetering facilities shall provide, at the Customer's expense, a dedicated telephone line for the Company's use in communicating with the telemetering facilities and will pay any and all costs associated with that phone line. Further, any existing special surcharges or minimum bill provisions designed to recover the cost of facilities for any Customer shall remain in effect and may serve to increase maximum allowable transportation rate levels pursuant to this pricing plan.

THIRD PARTY CHARGES

The Customer shall reimburse the Company for any charges rendered or billed to the Company by its upstream pipelines and by any other upstream transporter and gas gatherers, either before or after termination of the Transportation Agreement, which the Company, in its sole good faith judgment, determines have been incurred because of the transportation of Customer's gas hereunder and should, therefore, appropriately be borne by the Customer. Such charges, whether levied in dollars or gas, may include, but shall not be limited to, standby charges or reservation fees, prepayments, applicable taxes, applicable fuel reimbursement, shrinkage, lost and unaccounted for volumes, Gas Research Institute surcharges, penalty charges, and filing fees.

The Customer will reimburse the Company for all such charges incurred by the Company as rendered, irrespective of the actual quantities of natural gas delivered to the Customer.

CONDITIONS FOR CONVERTING TO T-2 SERVICE

Any qualified Customer converting from gas sales service to service under this pricing plan is subject to the following conditions and requirements:

1. T-2 service will commence at the beginning of the first calendar month following the end of five (5) days after receipt of the customer service change request or completion of any required facilities, whichever is later.

2. Customer will be billed or credited the Customer's pro rata share of the balance in the PGA bank accumulated while served under the Company's sales pricing plan, calculated as follows:

   (a) Starting from the later of the month of initiation of gas sales service by the Customer, or the date of initiation of the current PGA bank, through the Customer's last month of sales service, the Customer's actual therm usage will be multiplied, on a month-by-month basis, by the difference between the Company's actual commodity cost per therm and the Gas Cost component of the Base Cost of Service Rate adjusted for any PGA and PGA Surcharge that may be in effect from time-to-time;

   (b) The sum of these monthly calculated values equals the Customer's charge or credit due for conversion to service under this pricing plan;

   (c) Customer charge or credit will be paid in twelve (12) equal monthly payments, including interest equal to the carrying charge rate applicable to the PGA bank at the time of conversion to service under this pricing plan.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

CONDITIONS

1. Transportation of Customer owned natural gas hereunder shall be limited to natural gas of equal or higher quality than natural gas currently available from the Company's supplier(s). All gas delivered by the Company to the Customer shall be deemed to be the same quality as that gas received by the Company for transportation.

2. With respect to the Company's capacity to deliver gas at any particular time, the curtailment priority of any Customer served under this pricing plan shall be the same as the curtailment priority established for other Customers served pursuant to the Company's pricing plan, which would otherwise be applicable to such Customer.

Direct Testimony of D. Bentley Erdwurm

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	))))))))	DOCKET NO. G-04204A-08-____

Direct Testimony of

D. Bentley Erdwurm

on Behalf of

UNS Gas, Inc.

November 7, 2008

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I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is D. Bentley Erdwurm and my business address is One South Church Avenue, Tucson, Arizona, 85701.

Q. By whom are you employed and what are your duties and responsibilities?

A. I am employed by Tucson Electric Power Company ("TEP") as a Lead Analyst in the Pricing and Economic Forecasting department. In this role I prepare cost-of-service studies and rate design proposals. I also perform these functions for UNS Gas, Inc. ("UNS Gas").

Q. Please describe your background and work experience.

A. I earned my Master of Science in Economics from Texas A&M University, and my Bachelor of Arts in Economics from the University of Dallas. I have over 25 years of utility experience in the areas of cost allocation and rate design, forecasting, valuation and fair market value determination, and utility mergers and acquisitions. I have testified before state regulators in Arizona, Texas and Alabama on these issues. I testified on behalf of Tucson Electric Power Company ("TEP") in general rates cases during the 1990's on cost allocation, rate design and unbundling to facilitate direct access. I have also provided testimony in the most recent general rates for UNS Gas (2006), UNS Electric, Inc. (2006), and TEP (2007).

Q. What is the purpose of your Direct Testimony?

A. I am sponsoring Schedules G and H, which summarize the class cost-of-service study, rate design and proof of revenue for this filing. I also will sponsor, and my testimony will explain: (i) the weather normalization pro-forma adjustment; (ii) the year-end customer annualization pro-forma adjustment; (iii) the class cost-of-service study; and (iv) rate design, including phased-in residential customer charge increases. The Weather Normalization and Year-End Customer Annualization pro-forma adjustments are shown in Schedule C-2. Additionally, I will discuss the Company's proposal to meet with interested stakeholders to discuss equitable and effective ways to mitigate the impact of the proposed rate increase on low-income customers and to expand the eligibility of low-income assistance programs.

Q. **Could you please summarize your Direct Testimony?**

A. First, I am proposing weather normalization and customer annualization adjustments to reflect test-year billing determinants (customer count and usage) under normal weather and year-end customer levels. Commission-approved methodologies were used for both adjustments.

Second, I discuss the Company's class cost-of-service study. As in UNS Gas' last general rate case,[1] I allocated mains and regulators (a substantial component of non-commodity costs) on proportional responsibility and customer costs on weighted customers; these methods were approved in that last general rate case. The cost-of-service study follows the traditional "functionalize, classify, and allocate" structure previously approved in the Company's prior rate cases.

Third, I discuss the Company's rate design proposals. To enhance revenue stability and geographic equity among weather-sensitive customers (including residential customers), the Company is proposing modest customer charge increases for each customer class. These higher customer charges help shield cost recovery from the uncertainties of fluctuating weather-sensitive therm usage, which is appropriate because costs (except for

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[1] Docket No. G-04204A-06-0463; Decision No. 70011 (November 27, 2007).

the commodity cost of gas) are largely fixed. Weather fluctuations result in a mismatch between utility expenditures – which are not significantly weather sensitive - and receipts – which under the current rate design are highly weather sensitive. The Company proposes that residential customer charges be increased in three phases to smooth the transition to more cost-based customer charges. Phase 1 ($8.50 to $10) will begin when rates go into effect pursuant to the order in this case, and will continue for one year. Phase 2 ($10 to $12) begins at the one year mark and continues for an additional year, and Phase 3 ($12 to $14) follows – beginning two years after the initial Phase 1 implementation. There would be a corresponding revision to the volumetric charge for each phase to achieve revenue neutrality.

Finally, I will discuss the Company's proposal to meet with interested stakeholders to try to reach a consensus on the modification and expansion of low-income assistance programs.

II. WEATHER NORMALIZATION.

Q. What is the purpose of a weather normalization adjustment?

A. A weather normalization adjustment is performed to represent test-year sales, revenues and costs under normal weather conditions. Energy consumption for several UNS Gas customer classes is weather sensitive. For instance, a significant portion of energy usage in the winter comes from space heating. Some winters, however, are cooler than normal and the Company receives more revenues, and incurs more costs, as a result. This is because it takes more energy for customers to warm their homes and businesses when the average temperature is lower during the winter months. But a warmer than normal winter can result in the Company receiving less revenue and incurring less cost, because less energy is needed to heat homes and businesses. Hence, the purpose of weather normalization is to "average" out these differences, so one can get a better sense as to what the Company is likely to receive in revenues and incur as costs during a particular year. In other words, the weather normalization adjustment quantifies the change in therm sales, revenue and costs that would have occurred if the weather in the test-year had been typical.

Q. How is annual usage normalized based on the weather in order to make this adjustment?

A. The industry uses a variable known as heating degree days ("HDD") to measure the severity of weather. Gas heating requirements are small when average daily temperatures are greater than 65 degrees Fahrenheit. In other words, customers will generally have no need for heating when temperatures are at or above 65 degrees Fahrenheit. Therefore, a HDD is measured by subtracting 65 degrees from the average of the maximum and minimum temperature for that day. Negative results for HDD calculations are set to zero.

Actual HDDs for the UNS Gas service area are then compared to what the typical or normal weather has been in those areas. The normal weather for each calendar month is then determined as the average of monthly HDDs that have been recorded over the last ten years.

Q. Please explain further the weather normalization calculation.

A. To quantify how much gas usage changes in response to weather deviating from normal, the statistical technique of linear regression analysis was used. Regression analysis is used to estimate how much a dependent variable "y" (*e.g.*, average use-per-customer ("UPC")) changes in response to some change in an independent variable "x" (*e.g.*, HDD). This estimate, the slope coefficient (rise over run), represents the change in "y" divided by the change in "x." Specifically, the analysis focused on the consumption behavior of a single average customer – on this customer's UPC. Regression models estimate how much gas UPC changed in response to a change of one HDD. To put it another way, regression estimates the change in an average customer's monthly gas usage associated with a one degree (Fahrenheit) change in each hour of a single day's temperature (a one HDD change).

This analysis is conducted by month, by class, and by geographical area. A monthly analysis recognizes that the impact on UPC of HDD varies by month. UNS Gas has six distinct geographical areas (referred to in Company documents as "Trend Areas") - Flagstaff, Kingman, Nogales (Santa Cruz county), Prescott, Verde, and Show Low.

When regression is used for weather adjustments, one multiplies the slope coefficient (change in UPC/change in HDD) by the deviation from normal weather (*i.e.*, the difference in normal and actual HDD (which is: HDDN – HDDA)). Note that when actual HDD ("HDDA") is greater than normal HDD ("HDDN"), the calculated difference is negative. A negative adjustment here is indicative of a colder than normal month. To normalize UPC, a negative adjustment is added to actual UPC and a normalized UPC lower than the actual UPC results. In this case, we can say that weather was more extreme than normal (i.e., cooler in the winter), on average.

Likewise, when HDDA is less than HDDN, the calculated difference is positive. A positive adjustment here is indicative of a warmer than normal month. To normalize UPC, a positive adjustment is added to actual UPC and a normalized UPC higher than the actual UPC results. In this case, we can say that weather was less extreme than normal (*i.e.,* warmer (less cold) in the winter), on average.

The result of this calculation is the weather adjustment in therms per customer. To obtain the total weather adjustment, the weather adjustment per customer is simply multiplied by number of customers. Since the number of customers should be positive, a negative weather adjustment per customer must result in a negative overall weather adjustment. And a positive weather adjustment per customer must result in a positive overall weather adjustment.

Q. Is a weather normalization adjustment performed for all classes?

A. No. Weather normalization calculations were performed only for weather sensitive classes, as identified through regression analysis. The weather sensitive classes for UNS Gas are residential, commercial, and public authority. Regression analysis revealed no statistically significant relationship between the industrial class' usage and weather; therefore, no industrial weather adjustment is proposed.

Q. What did your calculations show?

A. Overall, weather was more extreme than normal during the test year (*i.e.*, colder in the winter, on average). Therefore, sales were slightly higher than normal resulting in a "negative" adjustment to sales volumes (therms).

Q. What was the effect of weather adjustments on test-year sales volumes?

A. Because sales were slightly higher than normal, it is necessary to make negative adjustments to reflect a "normalized" level of sales. The net result of these weather normalization adjustments was to adjust the total actual sales volumes downward. The weather adjustment was a negative 2,896,863 therms, approximately 2% of sales.

III. CUSTOMER ANNUALIZATION ADJUSTMENT.

Q. What is the purpose of a customer annualization adjustment in the rate-making process?

A. Customer annualization adjustments should restate the number of test-year bills and volumes to be *consistent with* (but not necessarily *equal to*) the number of customers on the system at the end of the test-year. Customers should expect a positive customer adjustment on a growing system. A positive customer adjustment typically entails additions to both customers and therms.

Q. Is your customer annualization adjustment positive given that the UNS Gas system is growing?

A. No, the adjustment is negative. The customer annualization adjustment, exclusive of an adjustment for a specific industrial customer, is a negative 837,517 therms. This adjustment follows the simple methodology that was supported by both the Staff and RUCO in the Company's last general rate case, and approved in Decision No. 70011. This approved adjustment methodology must now be applied consistently and uniformly to avoid biasing the customer annualization adjustment results.

Q. Why is the customer annualization adjustment negative?

A. Under the methodology approved in Decision No. 70011, the monthly customers during the test year are brought equal to the year-end customer count levels. Assuming that customers grow by a positive amount each and every month, there will be a positive customer annualization adjustment for each month, and therefore a positive overall customer annualization adjustment. Customer counts in early months of the test-year would need to be adjusted upward (a positive adjustment) to bring them to test year-end levels.

However, customer counts on the UNS Gas system often follow a more cyclical, seasonal pattern, with the customer count falling during the summer months. If the test-year ends during the summer (as in this case in June 2008), the test-year-end customer count may be less than some of the monthly customer counts during the previous eleven months of the test year. If months prior to test-year-end have customer counts greater than test year-end levels, the approved annualization methodology will lead to negative annualization adjustments for these months. A negative annualization adjustment means that a month's customer count would need to be adjusted downward to the lower customer count prevailing at test-year end.

In this proceeding, there are enough negative monthly adjustments to tip the net customer annualization adjustment (the sum of all annualization adjustments across months and across classes) negative, even for the growing UNS Gas system. Because the Company's proposal in the last general rate case to adjust for cyclicality in the customer count was rejected by the Commission, I am supporting the proposed negative annualization adjustment on the grounds that it is calculated using the Commission-approved methodology. Had the Company's adjustment for cyclicality been employed in this proceeding's customer annualization, the customer annualization adjustment would have brought monthly adjusted customers to levels adjusted for cyclicality and *consistent* with test-year-end levels – not simply to levels *equal* to year-end levels.

Q. What was the effect of customer annualization adjustments on test-year sales volumes?

A. Adding the negative 837,517 therm adjustment discussed above to a negative customer annualization adjustment of 2,290,881 therms attributable to one of the Company's industrial customers yields a total customer annualization adjustment of a negative 3,128,398 therms.

Q. Please discuss the negative 2,290,881 therm adjustment attributable to the specific industrial customer.

A. One of the Company's industrial customers has dual fuel capability, and used significantly more gas during the test year than during the previous four years. In fact, this industrial customer's usage was over twice as large in the test year than the average over the four years prior to the test year. There is no reason to expect this significantly increased usage to persist during coming periods. In fact, the customer is eliminating a production line at its facility and making job cuts. The negative 2,290,881 therm customer annualization adjustment was calculating by subtracting this customer's test year purchases from average annual purchases for the past five years (with the high consumption test year being the last year in the five year period).

Q. How does the customer annualization adjustment affect test-year customers and sales?

A. Negative customer annualization adjustments affect customers and therms. This means that adjusted billing determinants, both customers and therms, will have been "on average" adjusted downward. I say "on average" because some classes may effectively see customer and/or therm decreases, while other classes may see the opposite. The customer annualization adjustment's customer count varies by class; however, the net effect is as if there is a reduction in "average" customers.

IV. <u>CLASS COST-OF-SERVICE STUDY.</u>

Q. What is the purpose of a class cost-of-service study?

A. The ultimate purpose of a class cost-of-service study is to assign each cost component to the respective classes in order to determine an appropriate total cost to serve each class. An additional purpose is to assign each component a cost "classification" such as demand-related, energy-related or customer-related. A cost component may be one of three things: (1) an individual rate base or expense account as defined in the FERC Uniform System of Accounts; (2) a portion of a single FERC account (e.g., the "demand-related" portion of an account), or (3) some composite of accounts. Using composites of accounts helps reduce the physical size of the model.

Q. What are the steps in designing a class cost-of-service study?

A. There are three basic steps involved in developing a class cost-of-service study. Those steps are functionalization, classification, and allocation. Functionalization involves grouping cost components by purpose or function. Some examples of functions include distribution mains, distribution regulators, and metering. The class cost-of-service study presented by the Company in this proceeding identifies over twenty different functions. The next step, classification, involves identifying each function as demand-related, energy-related or customer-related. The final step, allocation, involves apportioning each cost component to the classes of service (*e.g.*, residential, commercial and industrial).

Q. Please describe how costs are classified for purposes of the class cost-of-service study.

A. Costs classified as demand are most affected by capacity requirements at the time of maximum (peak) consumption. These demand-classified costs are either coincident, meaning that they occur at the same time, or non-coincident, meaning they occur at times that may vary. Coincident demands tend to be more correlated with the costs of "upstream" facilities (i.e., common facilities serving all customers or the bulk of the customers). Non-coincident demands become more correlated with cost of facilities as we move downstream though the distribution system to the end-users. Non-coincident demands are more localized.

Costs classified as energy are most affected by therm sales by class. Finally, costs classified as "customer" are based on class customer counts – either non-weighted counts or weighted counts. Weighted counts take into account not just the number of customers but the level of costs imposed by the customers. In dealing with billing costs, for example, a residential customer may be defined as one "weighted customer" and an industrial customer that costs 20 times as much to bill would count as 20 "weighted customers."

Q. Please describe the allocation step in designing a class cost-of-service study?

A. As I stated above, allocation involves assigning each cost component to the different classes of service, including residential, commercial and industrial. Each function has a single allocation factor that applies to all cost components in that function. The allocation factor should be based upon an equitable method that harmonizes the cost-causation with the functional cost being considered. In other words, the allocation should be done in a way where the cost-causation for the functional cost considered is properly identified.

Q. Please describe the class cost-of-service study model used in this proceeding.

A. The model, created in Microsoft Excel, starts with cost components by function, known as functionalized costs. The model presents functionalized and classified costs vertically (*i.e.*, in rows down the spreadsheet) and the allocation of costs to rate classes horizontally (*i.e.*, in columns across the spreadsheet). Each functionalized and classified cost is then fully allocated to the customer classes. The percentage of a given cost allocated to a specific class will depend on the function and its associated allocation factor. A cost associated with billing customers, for example, should be allocated so that it reasonably approximates the cost of billing the customers by class. As mentioned above, a weighted customer basis would be used to derive a factor that reflects both the number of customers by class and the level of costs each customer class imposes.

Q. Are there different types of allocation factors?

A. Yes. Some allocation factors used are "external" allocation factors. External allocation factors are determined independent of the magnitude of specific costs in the class cost-of-service study (i.e. the external allocation factor is developed in an analysis separate from the study). An example of an external allocation factor is distribution mains ("DISTMAIN") listed in the class cost-of-service study as a demand-related factor used for the allocation of distribution mains. This factor is based on the Proportional Responsibility method discussed below.

Q. Are there internal allocation factors?

A. Yes, an internal allocation factor is calculated within the class cost-of-service study model and is dependent on the cost components found therein. For example, Accumulated Deferred Income Taxes are allocated based on Total Plant in Service ("PLANT"). Total Plant in Service is a composite of different plant categories (*e.g.*, intangible, transmission, distribution, and general). To the extent that plant categories are allocated differently, the Total Plant in Service allocator will vary based on the level of different plant types. Total Plant in Service, like all internal allocation factors, is a weighted average of other allocation factors. The relative size of cost components determines the weights in the weighted average.

Q. Is there a listing of allocation factors?

A. Yes. Allocation factors are listed in Schedule G-7. As shown, some factors are "customer-related." Studies on metering, services and meter reading provide the basis for the customer-related factors. Additionally, there are factors based on labor costs, throughput or internal factors based on individual or aggregate costs.

Q. Please describe the Proportional Responsibility method?

A. The Proportional Responsibility method is based on the respective class' share of total load in each of the twelve months for the test-year. The peak load months are more heavily weighted under Proportional Responsibility. A class' share of total load in low load months has only a small impact on the factor. Several allocation factors, including DISTR, DISTMAIN, DISTREG and TRANS are based on proportional responsibility. Factors such as DISTR, DISTMAIN, DISTREG and TRANS are external factors because the Proportional Responsibility method is based on class loads, and is calculated independently of the magnitude of any cost components. The Proportional Responsibility method drives many significant costs in the class cost-of-service study model.

Q. Has the Proportional Responsibility method been used in a previous general rate case filing?

A. Yes. This method was used and approved in Docket No. G-01032A-02-0598, Decision No. 66028 (July 3, 2003), when the Commission approved the Citizens Communications Company ("Citizens") Settlement Agreement, and in UNS Gas' last general rate case, Docket No. G-04204A-07-0643, Decision No.70011 (November 27, 2007).

Q. Have you allocated your proposed revenue by class so as to generate an equalized return by class, as indicated by your class cost-of-service study?

A. No. Revenues by class were set so that the percentage revenue increases were close to the system average revenue increase, exclusive of gas costs and other operating revenue. This helps mitigate the adverse rate impact on any class. Revenue by class is provided in the G Schedules.

V. RATE DESIGN.

Q. What are the Company's objectives in rate design?

A. The Company has two primary objectives in rate design: i) to more equitably collect the Company's fixed costs; and ii) to expand programs for our low-income customers in collaboration with interested stakeholders.

Q. Please summarize your rate design recommendations.

A. First, UNS Gas proposes an increase in monthly customer charges to levels that better match the true customer-related costs, as indicated by the class cost-of-service study. Under the class cost-of-service study, the "bare bones" monthly customer charges are calculated to be $18.15 for residential service, approximately $19.00 for small commercial/industrial customers and approximately $220.00 for large commercial/industrial customers. "Bare-bones" customer charges restrict the customer classification to metering, meter-reading, service (service drop) to the specific customer, customer service and billing. No demand-related distribution mains or distribution regulators are included, as they may be under a minimum system or zero intercept approach. The "bare-bones" approach leads to relatively low customer charges. However, we do not propose increasing monthly customer charges all the way to the charges suggested by the class cost-of-service study.

For residential service, the increases will be phased-in over two years. Phase 1 will go into effect upon approval of the rate increase. The Phase 2 and Phase 3 rate designs (implemented one year and two years, respectively, after rates go into effect in Phase 1) are based on approved test-year billing determinants, and are revenue neutral with respect to Phase 1 rates, in that test-year proposed revenue remains unchanged. UNS Gas proposes to increase residential customer charges from the current $8.50 per month to

$10.00 per month when new rates are implemented. The proposed rates per therm (exclusive of gas commodity costs) are proposed initially (in Phase 1) to be $0.3920. One year after the rate implementation, UNS Gas proposes a $2.00 per month residential customer charge increase, bringing the customer charge to $12.00 per month in Phase 2. With the increase in the customer charge to $12.00, the volumetric charges will be lowered to achieve the approved revenue requirement. Revenue neutrality is maintained at the one-year mark by lowering rates per therm (exclusive of gas commodity costs) to $0.3479. In Phase 3, commencing two years after rates go into effect, the customer charge is increased to $14.00 and revenue neutrality is maintained at this two-year mark by lowering rates per therm (exclusive of gas commodity costs) to $0.3039. Even in Phase 3, the customer charge will still be less than the $18.15 "bare-bones" customer charge supported by the class cost-of-service study.

Customer charges for non-residential classes generally also are raised closer to levels indicated by the class cost-of-service study. UNS Gas is proposing customer charges of $15.50 for small commercial/industrial customers (from the current $13.50) and $105.00 for large commercial/industrial customers (from the current $100.00). The proposed commercial/industrial charges are aligned more closely to the true costs of providing service. Increased customer charges will aid in the recovery of fixed costs.

Q. Why are customer charges preferred to volumetric (per therm) charges in recovering fixed costs?

A. UNS Gas currently collects the bulk of its fixed costs through a volumetric charge. Within the residential class, however, the periodic variation in throughput has limited impact on the true, non-commodity cost of serving customers Because most non-commodity costs are fixed, there is a potential for a mismatch between costs and revenue if a substantial portion of revenue is recovered through weather-sensitive sales. To help address this mismatch, customer charges can be increased. When customer charges are increased, volumetric charges are decreased, given a revenue requirement and other things constant. Customer charge revenue does not vary significantly with weather variations within a month, with conservation efforts, or – in the short run – with economic activity. Consequently, customer charges provide a relatively stable and predictable source for funding fixed costs, which constitute the bulk of a gas system's costs (exclusive of the commodity cost of gas, which is a pass-through).

Q. Does the current recovery of fixed costs through volumetric charges create problems other than revenue instability?

A. Yes. First, the collection of significant fixed cost through volumetric charges places a disproportionate burden on larger energy users, which in turn results in a geographical inequity. Customers in cooler areas have higher usage, on average, and pay more than their share of fixed costs. If the Company can shift revenue collection away from volumetric charges, it can minimize the cross-subsidization that occurs when usage within customer classes varies significantly based on geography and climate.

Second, the over-use of volumetric charges for fixed cost recovery creates an economic disincentive to the utility in promoting conservation. If margin is collected primarily through usage (volumetrically), conservation may significantly erode a gas distribution utility's ability to earn its authorized rate of return.

Q. How has the nature of UNS Gas' service territory exacerbated the geographical inequity?

A. Since natural gas usage is driven largely by weather, the Company's current rates have resulted in customers in cooler areas (i.e., districts with more HDDs) subsidizing those living in warmer areas. This disparity is exacerbated by the stark geographic differences in UNS Gas' service territory, which includes areas that are either among the coldest (e.g. Flagstaff) or the hottest (e.g. Lake Havasu City) parts of Arizona. Customers in the coldest corners of our service territory – those affected most by rising costs on the volumetric, gas commodity portion of their bills during home heating season – have borne the additional burden of subsidizing the fixed cost of serving customers who spend their winters in far more moderate climates.

Q. Have you performed an analysis to illustrate the subsidy of warmer districts by cooler districts?

A. Yes. Attached to my Direct Testimony as Exhibit DBE-1, is a table that shows average annual residential consumption and margin revenue for ten locations in the UNS Gas service territory. Margin does not include the commodity cost of gas. By "margin", I mean the sum of the: (i) customer charge; and (ii) portion of the volumetric charge not related to the commodity cost of gas. Margin covers the costs of customer service, billing, metering, meter reading,. service drop, mains, and other non-gas resources and infrastructure serving UNS Gas' customers. The data illustrates the disparity between what average customers in certain locations contribute to margin. For example, the typical residential customer in Flagstaff currently pays an annual margin (i.e., charges excluding actual gas commodity costs) of $328, $145 more than the $183 paid by the typical residential customer in Lake Havasu (see column 2 of Exhibit DBE-1). Cost-of-service analysis indicates that a $145 margin differential between these two customers is too high. Assuming proposed revenue levels, and a cost-based customer charge of $18.15 per month (which is higher than any of the Company's proposed residential customer charges), the Flagstaff customer pays a $364 margin, which is only $93 more than the $271 paid by the Lake Havasu customer (see column 6 of Exhibit DBE-1).

Because of the different overall revenue levels (i.e., current rates v. proposed rates), a comparison of the average Flagstaff bill as a percentage of the Lake Havasu bill is enlightening. Using the data from Exhibit DBE-1, I have compiled the following table that illustrates how the Company's phased-in increase in customer charges is a movement toward more cost-based rates.

Table 1 – Flagstaff / Lake Havasu Average Annual Bills EXCLUDING Gas Commodity costs

	Current ($8.50)	*Phase 1 ($10)*	*Phase 2 ($12)*	*Phase 3 ($14)*	*Cost-Based ($18.15)*
Flagstaff Bill	$328	$391	$384	$378	$364
Havasu Bill	$183	$218	$231	$244	$271
Difference	$145	$173	$154	$134	$93
Diff as %	79%	79%	67%	55%	34%

The "Diff as %" shows the difference in Flagstaff and Lake Havasu bills as a percent of Lake Havasu bills. This line shows that under cost-based rates an average Flagstaff bill should be only 34% higher than the average Lake Havasu bill. Currently, the average Flagstaff bill is 79% higher than the average Lake Havasu bill. Between Phases 1 and 3 of the proposed customer charge implementation, the excess of Flagstaff over Lake Havasu bills falls from 79% to 55%, which is a marked improvement and a movement to cost-based rates.

Q. How do you respond to the criticism raised in past rate cases that the Company is just seeking to recover through higher customer charges as much of its margin as possible and that such a rate design will encourage greater use of natural gas at a time when an increase in natural gas demand is coupled with shortages of supply?

A. I disagree with both criticisms. While a utility is always seeking to earn its authorized return, the main driver for our rate design is to resolve a gross inequity in the current rate design that adversely impacts cold weather customers, leads to revenue instability, and constitutes an economic disincentive for promoting conservation.

The Company's rate design hardly guarantees achieving its authorized rate-of-return ("ROR"). A significant percentage of <u>margin</u> recovery will still be collected through the volumetric charges, even in Phase 3 of the residential customer charge increases. Focusing on residential R-10 (the main residential rate responsible for approximately 69% of system margin revenue), 64% of margin currently is collected volumetrically, and only 36% is collected through customer charges. Based on costs, and pursuant to the class cost-of-service study, approximately 17.5% of the margin should be calculated volumetrically (through per therm charges), another 17.5% should be collected through some type of demand or reservation charge (not used in current nor proposed rates), and the remaining 65% should be collected through customer charges. For simplicity, I will combine the volumetric and demand components (each 17.5%) into a single volumetric component (35%). Some cost analysts would split the 17.5% demand component between the customer and volumetric components, instead of assigning it solely to the volumetric component, as I have done for simplicity. Such a splitting of the 17.5% demand component supports collecting *more* than 65% of residential margin through customer charges, but would move away from my "bare-bones" approach to customer charges.

In summary, around 36% of residential margin is currently collected through customer charges, but the class cost-of-service study indicates that at least 65% of residential margin should be collected through customer charges. This cost-based residential result is almost a complete reversal of the current situation. UNS Gas' current rates are mostly driven by the volumetric component, while the Company's costs are mostly fixed. The goal of having residential rates match cost causation is currently not being met. Furthermore, the analysis below demonstrates that this goal is not fully met under the proposed rates either, though there is some movement toward the goal.

Q. Please discuss the recovery of residential margin revenue under the Company's proposed phased-in customer charge increase.

A. The table below shows that even in Phase 3 of the residential customer charge increase, the percentage of margin recovery through customer charges falls short of the 65% cost-based target.

Table 2 – Percentage of Residential R-10 Margin Collected through Customer Charges

Residential R-10 Rate	*Percent Collected Through Customer Charge*
Current ($8.50/mo.)	36%
Proposed - Phase 1($10.00/mo.)	36%
Proposed - Phase 2 (One year after new rates become effective) ($12.00/mo.)	43%
Proposed - Phase 3 (Two-years year after new rates become effective) ($14.00/mo.)	50%
Cost-of-Service Target ($18.15/mo.)	65%

The 65% cost-based target is not met, but the Company's proposed rate design is a movement in the right direction. The Company's customer charge proposal is a balance between limiting bill impacts and mitigating undue subsidization of warmer areas by cooler areas. I believe this is consistent with the Commission's resolution of the customer charge issue in Decision No. 70011.

Q. Will the increased customer charge reduce the incentive to conserve?

A. Not materially. The proposed customer charges and volumetric charges will provide the appropriate incentive to conserve – neither too little incentive nor too much incentive - given cost considerations and the relative prices of energy substitutes like electricity, propane and firewood. Despite the fact that higher customer charges result in lower volumetric charges, customers will still have plenty of incentive to conserve natural gas because they avoid some very significant gas commodity costs. The commodity cost of natural gas has been increasing at around 2.5 times the rate of inflation over the last four years. Customers pay for the amount of natural gas they actually consume through UNS Gas' PGA. The gas commodity portion of the average residential bill is even greater (approximately 60%) than the margin portion (approximately 40%). The substantial commodity portion will continue to provide customers a strong incentive to conserve natural gas.

Q. Have you considered other mechanisms for addressing the current mismatch between revenues and costs and the resulting cross-subsidization between customers?

A. Yes. UNS Gas considered a recurring "reservation" (demand) charge based on a customer's maximum usage over the past twelve months. To the extent that potential peak requirements affect sizing of facilities to the end-use customer, this reservation charge could help match billing to cost-causation, which is desirable for an equitable rate design. As mentioned, around 17.5% of residential revenue could be recovered through the reservation charge, based on the cost-of-service study. However, this would be a major change in rate structure and may be better suited for a future proceeding.

VI. LOW-INCOME PROGRAMS.

Q. Is the Company proposing any changes to its CARES pricing plan in its initial testimony?

A. Yes. UNS Gas proposes to increase the non-CARES residential rate but *not* the CARES rate; the rates are "de-linked" in that the proposed CARES rate is no longer simply the non-CARES residential rate with $0.15 per therm subtracted from the price for the first 100 therms in the billing months of November through April. The Company is retaining the CARES pricing plan, and proposes to hold the customer charge and the non-commodity volumetric charges at current levels. Also, CARES customers will not see the phased-in customer charge increases applicable to the non-CARES residential rate.

Q. Please discuss your proposal to have interested stakeholders meet to discuss the potential expansion of low-income programs.

A. UNS Gas supports a collaborative effort of interested stakeholders aimed at providing a discount in the commodity cost of gas to CARES customers and/or establishing a discount through a gas cost cap specifically for CARES customers. These discounts would be fully recoverable though the Purchased Gas Adjustor ("PGA") from other retail customers. Stakeholders would discuss the level and applicability of any discounts. Gas costs discounts would represent an expansion of the package of discounts already applicable to CARES customers and *could* provide certainty that, after the proposed rate implementation, that CARES customers will see an effective "all-in" price (inclusive of gas costs) at or below any effective "all-in" price under current rates. UNS Gas will work quickly to schedule these meetings with stakeholders after the filing of this case to discuss low-income programs. In the event that consensus is reached, UNS Gas will file testimony in support of agreed-upon modifications to the CARES program. In the event that the Commission accepts any PGA discounts and/or a PGA cap for CARES customers, a conforming change to the Company's PGA mechanism will also be required.

Q. Does UNS Gas support the expansion of assistance programs beyond the CARES-eligible group?

A. Yes. UNS Gas recognizes than there are residential customers with income exceeding 150% of poverty level who are not eligible for the CARES program, but who struggle to pay utility bills. The Company proposes to meet with interested stakeholders, and collaboratively design a program for needy customers who do not qualify for CARES. One possible approach, for example, would be to design a program for customers with incomes between 150% and 200% of the poverty level. The specifics, including eligibility requirements and discount levels of the program, would be worked-out collaboratively among the stakeholders. The Company's support is conditioned on the program: i) being fully-funded by other retail customers, preferably through the PGA; and ii) being billable through the customer information and billing system. Assuming that consensus can be reached on a new customer assistance program, the Company will file testimony supporting it.

VII. <u>PROPOSED TARIFF.</u>

Q. Are UNS Gas' proposed tariffs included with your Direct Testimony?

A. Yes, the proposed tariffs are attached to my Direct Testimony as Exhibits DBE-2 (a) (clean copy) and DBE-2 (b) (redlined copy).

Q. Does this conclude your Direct Testimony?

A. Yes, it does.

EXHIBIT

DBE-1

UNS Gas - Test Year Ended June 30, 2008
Residential Use and Margin by Location

Location	Typical Annual Usage (Therms) (1)	Average Annual Margin Present (2)	Average Annual Margin Proposed "Phase 1" (3)	Average Annual Margin Proposed "Phase 2" (4)	Average Annual Margin Proposed "Phase 3" (5)	Average Annual Margin COS Rate (6)
Flagstaff	691	$328	$391	$384	$378	$364
Sedona	677	$323	$385	$380	$374	$362
Winslow	642	$312	$372	$367	$363	$354
Holbrook	620	$305	$363	$360	$356	$349
Show Low	607	$300	$358	$355	$352	$347
Prescott	567	$287	$342	$341	$340	$338
Kingman	400	$233	$277	$283	$290	$303
Cottonwood	436	$245	$291	$296	$301	$310
Santa Cruz	408	$235	$280	$286	$292	$304
Lake Havasu	249	$183	$218	$231	$244	$271
Average	545	$280	$334	$334	$334	$334

(Column 1) Does not include unbilled usage.

(Column 2) The present residential customer charge is $8.50 per month and the volumetric margin rate is $0.3270 per therm.

(Column 3) Phase 1 - The 1st year proposed residential customer charge is $10.00 per month; the volumetric margin rate is $0.3920 per therm.

(Column 4) The Phase 2 (after 1 year) proposed residential customer charge is $12.00 per month; the volumetric margin rate is $0.3479 per therm.

(Column 5) The Phase 3 (after 2 years) proposed residential customer charge is $14.00 per month; the volumetric margin rate is $0.3039 per therm.

(Column 6) The COS residential customer charge is $18.15 per month; the hypothetical volumetric margin rate is $0.2123 per therm.

EXHIBIT

DBE-2

UNS GAS, INC.
TARIFFS

CLEAN VERSION

FOR TEST YEAR SEPTEMBER 30, 2008

UniSource Energy SERVICES

UNS Gas, Inc.

Pricing Plan Summary

Pricing Plan	Pricing Plan Title	Therm Limits	Effective Date	Customer Charge	Charge per Therm (Excluding CNG)	ACC Decision
R-10	Residential Gas Service		XX/X/XX	$10.00	$0.3920	XXXXX
R-10	Residential Gas Service		XX/X/XX	$12.00	$0.3480	XXXXX
R-10	Residential Gas Service		XX/X/XX	$14.00	$0.3039	XXXXX
R-12	C.A.R.E.S. ($0.15 discount applicable for billing months of November - April)		XX/X/XX	$7.00	Summer $0.327000 Winter $0.177000	XXXXX
C-20	Small Volume Commercial Service	≤ 120,000 therms	XX/X/XX	$15.50	$0.3168	XXXXX
C-22	Large Volume Commercial Service	> 120,000 therms	XX/X/XX	$105.00	$0.2054	XXXXX
I-30	Small Volume Industrial Service	≤ 120,000 therms	XX/X/XX	$15.50	$0.2808	XXXXX
I-32	Large Volume Industrial Service	> 120,000 therms	XX/X/XX	$105.00	$0.1136	XXXXX
PA-40	Small Volume Public Authority Service	≤ 120,000 therms	XX/X/XX	$15.50	$0.3104	XXXXX
PA-42	Large Volume Public Authority Service	> 120,000 therms	XX/X/XX	$105.00	$0.1430	XXXXX
PA-44	Special Gas Light Service		XX/X/XX	Various		XXXXX
IR-60	Irrigation Service		XX/X/XX	$15.50	$0.3804	XXXXX
CGS-1	Competitive Gas Service	> 10,000 therms	XX/X/XX	Negotiated		XXXXX
CNG-1	Compressed Natural Gas Service		XX/X/XX	Various		XXXXX
EC-1	Electric Cogeneration Service		XX/X/XX	$105.00	$0.0488	XXXXX
MISC-1	Miscellaneous Service Fees		XX/X/XX	Various		XXXXX
NSP-1	Negotiated Sales Program		XX/X/XX	Negotiated		XXXXX
T-1	Transportation of Customer-Secured Natural Gas	> 120,000 therms	XX/X/XX	Otherwise applicable base rates less embedded gas costs		XXXXX
T-2	Transportation Service Using Dedicated Transmission Facilities	> 120,000 therms	XX/X/XX	See tariff for detail of applicable charges		XXXXX
RR-1	Purchased Gas Adjustment		XX/X/XX			XXXXX
RR-2	DSM Adjustor		12/1/07	N/A	$0.0025 per therm	Decision No. 70011

NOTE

All sales pricing plans above include a Cost of Natural Gas Charge (CNGC) which recovers the cost of natural gas purchased by UNSG on behalf of its customers.

The CNGC rate shall be subject to increases or decreases by the amount of the Purchased Gas Adjustment in accordance with the provisions of Rider RR-1

UniSource Energy SERVICES

UNS Gas, Inc.
Pricing Plan R-10
Residential Gas Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
Subject to availability, at point of delivery, to residential gas service in individual residences and individually metered apartments when all service is metered through one meter.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month as of mm-dd-yyyy @	$10.00
Minimum Customer Charge per month as of mm-dd-yyyy @	$12.00
Minimum Customer Charge per month as of mm-dd-yyyy @	$14.00
Delivery Charge per therm as of mm-dd-yyyy @	$0.3920
Delivery Charge per therm as of mm-dd-yyyy @	$0.3480
Delivery Charge per therm as of mm-dd-yyyy @	$0.3039

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSource Energy SERVICES

UNS Gas, Inc.
Pricing Plan R-12
Customer Assistance Residential Energy Support (C.A.R.E.S.)

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
Subject to availability, at point of delivery, to residential gas service in individual residences and individually metered apartments when all service is metered through one meter.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$7.00
Delivery Charge per therm @	$0.3270

Delivery Charge: first 100 therms or less per month will be discounted by $0.1500 per therm for the billing months of November through April.

SPECIAL CONDITIONS

1. Eligibility requirements for C.A.R.E.S. are set forth on the Company's Application and Declaration of Eligibility for Low Income Ratepayer Assistance form. Customers who desire to qualify for this pricing plan must initially make application to the Company for qualification and must provide verification to the Company that the customer's household gross income does not exceed one hundred fifty percent (150%) of the federal poverty level. Qualified customers must have an approved application form on file with the Company. Subsequent to the initial certification, the residential customer seeking to retain eligibility for the C.A.R.E.S. must provide a personal certification that the household gross income of the residential dwelling unit involved does not exceed one hundred fifty percent (150%) of the federal poverty level.

2. Samples of the existing C.A.R.E.S. participants will be re-certified every two years prior to October 1 and when a customer changes residence.

3. Eligible customers shall be billed under this pricing plan during the winter season, commencing with the next regularly scheduled billing period after the Company has received the customer's properly completed application form or re-certification.

4. Eligibility information provided by the customer on the application form may be subject to verification by the Company. Refusal or failure of a customer to provide documentation of eligibility acceptable to the Company, upon request of the Company, shall result in removal from or ineligibility for this pricing plan.

5. Customers who wrongfully declare eligibility or fail to notify the Company when they no longer meet the eligibility requirements may be rebilled for the period of ineligibility under their otherwise applicable residential pricing plan.

6. It is the responsibility of the customer to notify the Company within thirty (30) days of any changes in the customer's eligibility status.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSource Energy SERVICES

UNS Gas, Inc.
Pricing Plan C-20
Small Volume Commercial Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all commercial customers whose primary business activity at the location served is not provided for under any other pricing plan, whose usage does not exceed 120,000 therms per year when all service is supplied at one point of delivery, and whose gas is metered through one meter.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$15.50
Delivery Charge per therm @	$0.3168

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas ajustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan C-22
Large Volume Commercial Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
To all commercial customers whose primary business activity at the location served is not provided for under any other pricing plan and whose preceding twelve (12) month usage exceeded 120,000 therms. Service is supplied at one point of delivery and gas is metered through one meter unless the Company, at its sole discretion, chooses to provide service through multiple meters.

For new customers, their expected usage must exceed 120,000 therms per year.

Any customer transferring from this schedule may not return for a period of twelve (12) billing periods.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$105.00
Delivery Charge per therm @	$0.2054

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSource Energy SERVICES

UNS Gas, Inc.
Pricing Plan I-30
Small Volume Industrial Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all customers whose gas usage does not exceed 120,000 therms per year, who are served through a single meter, and whose primary business activity at the location served is included in one of the following classifications of the North American Classification System, United States:

> Sector 11. Agriculture, Forestry, Fishing and Hunting: Subsector 111. Crop Production only;
> Sector 21. Mining: All Subsectors;
> Sector 22. Utilities: Power Generation Subsectors only; and
> Sectors 31-33. Manufacturing: All Subsectors.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$15.50
Delivery Charge per therm @	$0.2808

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan I-32
Large Volume Industrial Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all customers whose gas usage over the preceding twelve (12) months exceeded 120,000 therms, and whose primary business activity at the location served is included in one of the following classifications of the North American Classification System, United States:

Sector 11. Agriculture, Forestry, Fishing and Hunting: Subsector 111. Crop Production only;
Sector 21. Mining: All Subsectors;
Sector 22. Utilities: Power Generation Subsectors only; and
Sectors 31-33. Manufacturing: All Subsectors.

Service is supplied at one point of delivery and gas is metered through one meter unless the Company, at its sole discretion, chooses to provide service through multiple meters.

For new customers, their expected usage must exceed 120,000 therms per year.
Any customer transferring from this pricing plan may not return for a period of twelve (12) billing months.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$105.00
Delivery Charge per therm @	$0.1136

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan PA-40
Small Volume Public Authority Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
To all facilities owned or operated by governmental agencies whose primary business activity at the location served is not provided for under any other pricing plan or special contract, whose usage does not exceed 120,000 therms per year when all service is supplied at one point of delivery and gas is metered through one meter.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$15.50
Delivery Charge per therm @	$0.3104

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan PA-42
Large Volume Public Authority Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
To all facilities owned or operated by governmental agencies whose primary business activity at the location served is not provided for under any other pricing plan or special contract. Under this pricing plan, usage over the preceding twelve (12) months must exceed 120,000 therms when all service is supplied at one point of delivery and gas is metered through one meter unless the Company, at its sole discretion, chooses to provide service through multiple meters.

For new customers, their expected usage must exceed 120,000 therms per year.

Any customer transferring from this pricing plan may not return for a period of twelve (12) billing months.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$105.00
Delivery Charge per therm @	$0.1430

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan PA-44
Special Gas Light Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the facilities served.

APPLICABILITY

To all public authority customers for the operation by the Company of gas lights for streets in which gas distribution facilities are located.

RATE

A monthly net bill at the following rates plus any adjustments incorporated in this pricing plan:

Single Orifice @	$21.57
Double Orifice @	$43.13
Triple Orifice @	$64.70
Quadruple Orifice @	$86.27

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

CONDITIONS

1. Contracts for gas lighting service under this pricing plan must be for a minimum term of five (5) years.

2. The cost of relocation of any gas light that is requested by the customer will be reimbursed to the Company by the customer.

3. The customer is not authorized to make any connections to gas lines serving individual gas lights or make any alteration of such lights.

4. The Company will use diligence in maintaining gas lighting service and monthly bills will not be reduced because of any gas light outage.

5. Any special contracts for public authority lighting will be based on an analysis of costs of operation, maintenance, and investment. Any contracts pursuant to this pricing plan, which provide for higher rates than set forth in this pricing plan, will be filed with the Arizona Corporation Commission for approval.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan IR-60
Irrigation Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
To all irrigation customers whose primary business activity at the location served is not provided for under any other pricing plan, who operates one or more gas-fueled engines, and gas is metered through one meter.

The Company may require that gas for engine use be separately metered and billed if necessary to prevent abuse or inequity in the application of this rate.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$15.50
Delivery Charge per therm @	$0.3804

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan T-1 Supplementary Information
Transportation of Customer-Secured Natural Gas

Transportation customers procure their own gas and UNS Gas, Inc. ("Company") transports it from the connection with the interstate pipeline (at the city gate) over the Company's pipeline system to the customer's facility. To qualify, customers must use a minimum of 120,000 therms per year.

The rates per therm for transportation service from the city gate to the customer's facility are as follows:

Large Volume Commercial	$0.2054 per therm
Large Volume Industrial	$0.1136 per therm
Large Volume Public Authority	$0.1430 per therm

Customers must also pay for the following items:

1. Charges for lost and unaccounted for gas in accordance with Pricing Plan T-1 (Transportation of Customer-Secured Natural Gas);
2. A minimum Customer Charge of $105 per month;
3. Telemetering equipment and a telephone line; and
4. The costs for delivery of gas to the city gate.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan T-1
Transportation of Customer-Secured Natural Gas

AVAILABILITY
This pricing plan is available to any qualifying Customer for transportation of natural gas by the Company from existing interconnects between the Company and upstream pipelines (herein called Receipt Point) to the Delivery Point(s) on the Company's system throughout its certificated Arizona Gas Service Area under the following conditions:

1. The Company has available capacity to render the requested service without construction of any additional facilities, except as provided by this pricing plan under Facility Additions..

2. The Customer has demonstrated to the Company's satisfaction the assurance of natural gas supplies and third-party transportation agreements with quantities, and for a term compatible with the service being requested from the Company.

3. The Customer and the Company have executed a Transportation Agreement, and the Customer is to be the End-User.

4. The Customer's gas to be transported is greater than 120,000 therms per year. A Customer receiving service from the Company at multiple locations may aggregate meters with annual consumption of no less than 50,000 therms per meter to qualify for this service provided that all meter locations are served under a single entity. In addition, the annual consumption of customers that are aggregated must be greater than 120,000 therms per year.

APPLICABILITY
This pricing plan shall apply to gas transported by the Company for Customer pursuant to the executed service agreement.

1. The basic transportation service rendered under this pricing plan shall consist of:

   (a) The receipt by the Company for the account of the Customer of the Customer's gas at the Receipt Point;

   (b) The transportation of gas through the Company's gas system for the account of the Customer; and

   (c) The delivery of gas after transportation by the Company for the account of the Customer at the Delivery Point(s).

2. Transportation: Service is firm and uninterrupted except for the following:

   (a) Curtailment in accordance with the Company's curtailment priority procedures;

   (b) When the Company determines it has insufficient capacity on its system or from its upstream pipeline; or

   (c) Customer's gas supply to the Company is insufficient to meet its requirement.

3. Any Customer served under this pricing plan that requests service under a sales pricing plan is ineligible to return to transportation service for a period of not less than twelve (12) months.

RATES

A discount from the following rates may be offered at the sole discretion of the Company if such discount is in the best interest of the Company and its ratepayers. The maximum amount that the Customer shall pay the Company monthly will be the sum of the following charges:

Customer Charge per Month: $105.00 per meter

Volume Charge: An amount equal to the applicable unit transportation rate for each therm of Customer-secured gas metered and delivered to the Customer. The unit rates shall be as set forth in the currently effective Pricing Plan Summary. The volume charge will consist of the following:

(a) An amount equal to the applicable unit sales margin for each therm as set forth in the Customer's otherwise applicable sales pricing plan for each meter. This volume charge will cover the Company's Delivery Charge as specified in the currently effective gas sales pricing plan but not including the base cost of gas specified therein.

(b) An amount to reflect lost and unaccounted for gas as determined by the differential between the gas costs on a sales basis and gas costs on a purchase basis determined in the development of the currently effective, Purchased Gas Adjustment ("PGA"), Rate Rider No. RR-1. The Company, at its sole option, may allow lost and unaccounted for gas to be paid in kind.

(c) Any applicable imbalance charges as specified in Payment For Excess Quantities of this pricing plan.

(d) Any charges from upstream pipeline transporters or suppliers which have been incurred by the Company in excess of those specified in section (c) above and are deemed by the Company to be applicable to the transportation service rendered for the Customer under these pricing plans.

Minimun Charge: The minimum charge will be the Basic Customer Charge per Month plus $0.005 per therm.

ADMINISTRATIVE PROCEDURES

1. Processing Requests for Transportation Service: Requests for transportation hereunder shall be made by, and shall be deemed to be complete upon, the Customer providing the following information to the Company:

(a) Gas Quantities: The Maximum Daily Quantity applicable to the receipt point and the Maximum Daily Quantity applicable to each delivery point and estimated total quantities to be received and transported monthly over the delivery period should be stated individually in therms for each receipt point.

(b) Delivery Point(s): Point(s) of delivery by the Company to the Customer.

(c) Term of Service:
i. Date of service requested to commence;
ii. Date service requested to terminate, if known; and
iii. Minimum term for transportation service shall be twelve (12) months.

(d) Performance: A statement from the Customer certifying that the Customer has or will have title to the gas to be delivered to the Company for transportation and has entered into or will enter into those arrangements necessary to assure all upstream transportation will be in place prior to the commencement of service under a Transportation Agreement. The Customer's Agent, if any, must be named.

Upon receipt of all of the information specified above, the Company shall prepare and tender to the Customer for execution a Transportation Agreement. If the Customer fails to execute the Transportation Agreement within thirty (30) days of the date tendered, the Customer's request shall be deemed null and void.

OPERATING PROCEDURES

1. Nominating and Scheduling of Gas Receipts and Deliveries: The Customer shall be responsible for contacting the upstream pipelines to arrange for the nominating and scheduling of receipts and deliveries hereunder, provided, that the Customer may designate one (1) other party to serve as his agent for such purpose.

   The Customer or Customer's Agent shall be responsible for submitting nominations to the upstream pipeline and notifying the Company's designated representative in writing no later than one (1) hour prior to the upstream pipeline's nomination deadlines set forth in their FERC approved tariff. Such communication shall occur prior to the first of the month and within the month if there are changes to the nominations. The Customer is responsible for confirming the timely receipt of this information by the Company. The Company will confirm whether it has sufficient operational capacity to deliver all or a portion of the Customer's gas.

2. Operating Information and Estimates: Upon request of the Company, the Customer shall from time to time submit its best estimates of the daily, monthly and annual volumes of gas to be transported; including peak day requirements, together with such other operating data as the Company may require in order to schedule its operations.

   The Company may require large Customers whose contractually allowed maximum daily quantity exceeds 10,000 therms per day, whose usage is not predictable based on weather, and whose ratio of high to low daily usage exceeds ten (10) to inform the Company within 2 hours of any initiation or termination of gas usage exceeding an hourly rate of 1,000 therms per hour.

3. Quantities: All quantities referred to under Operating Procedures of this pricing plan shall be provided as dekatherms ("DTH") (one million British Thermal Units).

4. Deliverability: The Company shall not be liable for its failure to deliver gas when such failure is due to unavailability of gas supply or interruption of third party transportation services.

5. Other Operating Procedures: The Company may require additional information or enforce other operating procedures as deemed necessary in the Company's sole judgment, in order to coordinate gas volumes and the movement of gas through the upstream pipeline system to the Company's Arizona Gas Service Area. These additional operating procedures may be enforced upon verbal notice to each Customer or the Customer's Agent with twenty-four (24) hour notice of implementation.

6. Balancing: Balancing of thermally equivalent volumes of gas received and delivered shall be achieved as nearly as feasible on a daily basis, taking into account the Customer's right, subject to prior Company approval, to vary receipts and deliveries across the Company Distribution System. Customer monthly imbalances are defined as the difference between the Customer's total monthly metered quantities and the Customer's total scheduled transportation quantity. Customers are provided a monthly operating window, under which the Customer's cumulative imbalances must be within plus or minus 5 percent (+/- 5%) of the month's total of daily scheduled transportation quantities, plus any Company-approved imbalance adjustment quantity, or 1,500 therms, whichever is greater. Imbalances established in excess of the applicable monthly operating window will be subject to imbalance charges as specified in Payment for Excess Quantities of this pricing plan. However, if the Customer has an imbalance outside this limit and contacts the Company before the end of the last business day of the month, the Customer will have a "cure period" of an additional 30 days to bring its imbalance within the limits before any imbalance charges specified in Payment for Excess Quantities are applied. Customer is then ineligible for a "cure period" for the following month. If in the Company's sole good faith judgment and operating conditions permit, the Company will increase the monthly operating window. Any imbalance (plus or minus) carried forward shall be considered first through the meter during the next daily or monthly period, as applicable.

   Upon Customer request, the Company will permit electronic read-only access to the telemetering facilities described in Facility Additions of this pricing plan or provide daily meter reads each calendar day.

7. Adjustments: Periodically, volume adjustments may be made by the upstream pipelines or the Customer's agent. Therefore, actual daily volumes invoiced will be compared with daily nominated volumes. Should adjustments to the nominated volumes become necessary, such adjustments will be applied to the nomination for the month in which the volumes were delivered to the Customer for the purposes of determining the applicability of the provisions of this pricing plan.

8. Customer Default: The Company shall not be required to perform or continue service on behalf of any Customer that fails to comply with the terms contained in this pricing plan and the terms of the Customer's Transportation

Service Agreement with the Company. The Company shall have the right to waive any one or more specific defaults by any Customer under any provision of this pricing plan or the service agreement, provided, however, that no such waiver shall operate or be construed as a waiver of any other existing or future default or defaults, whether of a like or different character.

9. Operational Curtailment: The Company reserves the right to impose, at any time, any reasonable operating conditions upon the transportation of the Customer's gas which the Company, in its sole good faith judgment, deems necessary to maintain safe and efficient operation of its distribution system, or to make the operating terms and conditions of service hereunder compatible with those of its upstream pipelines. Under such circumstances, the following conditions shall apply:

   (a) Any Customer that does not comply with a notice of operational curtailment shall be subject to, in addition to any otherwise applicable charges, a penalty of $10.00 per DTH for all unauthorized quantities during the curtailment period.

   (b) The Company shall endeavor to provide notice of such operational curtailment forty-eight (48) hours prior to the commencement of the delivery of gas.

   (c) Notwithstanding condition (b), the Company may impose an operational curtailment on the current gas day. In the event an operational curtailment is imposed on the current gas day, a minimum one-hour grace period will be allowed before penalties begin to apply.

PAYMENT FOR EXCESS QUANTITIES

1. Customers will be assessed imbalance charges if an imbalance exists in excess of the applicable monthly operating window under the conditions set forth in Balacing described as part of Operating Procedures herein. The portion of any imbalance quantity established by a Customer in excess of the applicable monthly operating window is defined as an excess imbalance quantity. The imbalance charge will be based on the Company's short term purchases, where short term purchases are defined as gas for which the price is determined in the calendar month of use. In addition to the charges payable under this pricing plan, any monthly excess quantity shall be billed as follows:

(a) Positive Excess Imbalance
A positive excess imbalance exists when the Customer's scheduled transportation quantity exceeds the Customer's metered quantity by more than the applicable monthly operating window. The excess imbalance shall be retained by the Company and eliminated after the Customer's bill is credited as follows:

(i) The price of the positive imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's least expensive short term purchases (including all upstream pipeline fuel and variable costs) for the aggregate positive imbalance volume associated with all T-1 customers. This weighted average cost per therm will be multiplied by the Customer's positive imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Positive" column in Table 1 below.

(b) Negative Excess Imbalance
A negative excess imbalance exists when the sum of the Customer's scheduled transportation quantity is less than the metered quantity by more than the applicable monthly operating window. The excess imbalance shall be eliminated after the Customer is billed as follows:

(i) The price of the negative imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's most expensive short term purchases (including all upstream pipeline fuel, variable and capacity costs, at a 100% load factor) for the aggregate negative imbalance volume associated with all T-1 customers. This weighted average cost per therm will be multiplied by the Customer's negative imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Negative" column in Table 1 below.

Table 1

Percentage Excess Imbalance	Positive	Negative
Equal to or less than 5%	100%	100%
Over 5% and less than or equal to 15%	90%	110%
Over 15% and less than or equal to 20%	80%	120%
Over 20% and less than or equal to 30%	70%	130%
Over 30%	60%	140%

2. Should the Customer cease to utilize transportation service under this pricing plan, the entire remaining imbalance shall be settled pursuant to section Payment For Excess Quantities herein. For purposes of this settlement, no operating window applies.

3. Under no circumstances shall the section Payment For Excess Quantities above be considered as giving the Customer any right to take excess quantity gas, other than as provided in Operating Procedures hereof, nor shall the section Payment For Excess Quantities or payment thereunder be considered as a substitute for any other remedy available to the Company against the offending Customer for failure to respect its obligation to stay within its authorized quantities.

FACILITY ADDITIONS

Any facilities which must be installed by the Company to serve the Customer will be constructed in accordance with the Rules and Regulations as approved from time to time by the Arizona Corporation Commission. Telemetering facilities on each meter will be installed at the Customer's expense. Customers requiring telemetering facilities shall provide, at the Customer's expense, a dedicated telephone line for the Company's use in communicating with the telemetering facilities and will pay any and all costs associated with that phone line. Further, any existing special surcharges or minimum bill provisions designed to recover the cost of facilities for any Customer shall remain in effect and may serve to increase maximum allowable transportation rate levels pursuant to this pricing plan.

THIRD PARTY CHARGES

The Customer shall reimburse the Company for any charges rendered or billed to the Company by its upstream pipelines and by any other upstream transporter and gas gatherers, either before or after termination of the Transportation Agreement, which the Company, in its sole good faith judgment, determines have been incurred because of the transportation of Customer's gas hereunder and should, therefore, appropriately be borne by the Customer. Such charges, whether levied in dollars or gas, may include, but shall not be limited to, standby charges or reservation fees, prepayments, applicable taxes, applicable fuel reimbursement, shrinkage, lost and unaccounted for volumes, Gas Research Institute surcharges, penalty charges and filing fees.

The Customer will reimburse the Company for all such charges incurred by the Company as rendered, irrespective of the actual quantities of natural gas delivered to the Customer.

CONDITIONS FOR CONVERTING TO T-1 SERVICE

Any qualified Customer converting from gas sales service to service under this pricing plan is subject to the following conditions and requirements:

1. T-1 service will commence at the beginning of the first calendar month following the end of five (5) days after receipt of the customer service change request.

2. Customer will be billed or credited the Customer's pro rata share of the balance in the Company's PGA bank, calculated as follows:

(a) Starting from the later of the month of initiation of gas sales service by the Customer, or the date of initiation of the current PGA bank, through the last month of sales service, the Customer's actual therm usage will be multiplied, on a month-by-month basis, by the difference between the Company's actual commodity cost per therm and the Gas Cost component of the Basic Cost of Service Rate adjusted for any PGA and PGA Surcharge that may be in effect from time to time;

(b) The sum of these monthly calculated values equals the Customer's charge or credit due for conversion to service under this pricing plan;

(c) Customer charge or credit will be paid in twelve (12) equal monthly payments, including interest equal to the carrying charge rate applicable to the PGA bank at the time of conversion to service under this pricing plan.

3. If a Customer converts back to a pricing plan for gas sales service while the PGA Surcharge existing at the time of the switch to T-1 service is still in effect, such Surcharge will not be applicable to the Customer's billed usage for the period it remains in effect. However, any future PGA Surcharge that may be put into effect will be applicable to the Customer's billed usage.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

CONDITIONS

1. Transportation of Customer-owned natural gas hereunder shall be limited to natural gas of equal or higher quality than natural gas currently available from the Company's supplier(s). All gas delivered by the Company to the Customer shall be deemed to be the same quality as that gas received by the Company for transportation.

2. With respect to the Company's capacity to deliver gas at any particular time, the curtailment priority of any Customer served under this pricing plan shall be the same as the curtailment priority established for other Customers served pursuant to the Company's pricing plan which would otherwise be available to such Customer.

UNS Gas, Inc.
Pricing Plan T-2
Transportation Service Using Dedicated Transmission Facilities

AVAILABILITY

This pricing plan is only available to any qualifying Customer for transportation of natural gas by the Company from dedicated interconnects between the Company and upstream pipelines (herein called Receipt Point) to the Delivery Point(s) on the Company's transmission system throughout its certificated Arizona Gas Service Area under the following conditions:

1. The Company has or will have available capacity to render the requested service utilizing facilities dedicated to the requirements of the Customer, except as provided under Facility Additions hereof;

2. The Customer has demonstrated to the Company's satisfaction the assurance of natural gas supplies and third-party transportation agreements with quantities and for a term compatible with the service being requested from the Company;

3. The Customer and the Company have executed a Transportation Agreement, and the Customer is to be the End-User;

4. The Customer's requirement for gas to be transported is greater than 1,000 therms per day or 120,000 therms per year; and

5. The Customer is not taking service through dedicated facilities under the provisions of a special contract approved by the Arizona Corporation Commission ("ACC").

6. The Customer is classified as a utility that produces electricity.

APPLICABILITY

This pricing plan shall apply to gas transported by the Company for Customer pursuant to the executed service agreement.

1. The basic transportation service rendered under this pricing plan shall consist of:

   (a) The receipt by the Company for the account of the Customer of the Customer's gas at the Receipt Point;

   (b) The transportation of gas through the Company's gas system for the account of the Customer; and

   (c) The delivery of gas after transportation by the Company for the account of the Customer at the Delivery Point(s).

2. Transportation: Service is firm and uninterrupted except for the following:

   (a) Curtailment in accordance with the Company's curtailment priority procedures;

   (b) When the Company determines it has insufficient capacity on its system or from its upstream pipeline; or

(c) Customer's gas supply to the Company is insufficient to meet its requirement.

3. Any Customer served under this pricing plan is ineligible to obtain sales service without executing a special contract approved by the ACC.

RATES

A monthly net bill at the following rates plus any adjustments incorporated in this pricing plan:

Customer Charge per month: $105.00 per meter

Volume Charge: An amount equal to the applicable unit transportation rate for each therm of Customer-secured gas metered and delivered to the Customer. The unit rates shall be as set forth in the currently effective Pricing Plan Summary. The volume charge will consist of the following:

(a) An amount to fund the Company's low income rate program equal to the portion of the applicable unit sales margin for each therm included in rates as set forth in the Customer's otherwise applicable sales pricing plan for each meter.

(b) An amount to reflect lost and unaccounted for gas as determined by the differential between the gas cost on a sales basis and gas cost on a purchase basis determined in the development of the currently effective Purchased Gas Adjustment ("PGA"), Rate Rider No. RR-1. The Company at its sole option may allow lost and unaccounted for gas to be paid in kind.

(c) Any applicable imbalance charges as specified in Payment For Excess Quantities of this pricing plan.

(d) Any charges from upstream pipeline transporters or suppliers which have been incurred by the Company in excess of those specified in section (c) above and are deemed by the Company to be applicable to the transportation service rendered for the Customer under this pricing plan.

Reservation Charge: An annual charge to be billed in twelve (12) equal monthly installments equal to the fully allocated costs to provide the dedicated facilities necessary to serve the Customer as described more fully in Rates of this pricing plan.

Determined on the basis of a fully allocated cost study filed with and approved by the ACC in the context of a general rate case except when the request for service is non-coincident with a rate filing. In the latter case, the Reservation Charge will be computed by the Company including the following elements:

(a) Return and income taxes at the rate of return approved by the ACC in the Company's last general rate case computed on the basis of the installed costs of the dedicated facilities plus an allocation of other rate base items including, as appropriate: intangible, general and common plant investment, less any applicable accumulated depreciation and deferred taxes, an allowance for working capital and materials and supplies;

(b) Operations expense including all operating and maintenance expenses, depreciation and amortization expense, taxes other than income related to the dedicated facilities and allocated rate base;

(c) Allocated indirect expense including an appropriate portion of customer accounting, sales and information, and administrative and general expenses; and

(d) Any other allocated costs incurred either directly or indirectly to provide the requested service.

Special Surcharge: An annual charge to be computed on the basis of the twelve (12) months ending September of the prior year and billed beginning in January in equal monthly installments, computed as the sum of the following charges:

(a) The revenue requirements for any additional investments required to provide the service requested by Customer subsequent to the establishment of the currently effective Reservation Charge,

(b) Any non-recurring operating and maintenance expenses associated with the facilities dedicated to the Customer in the previous year, and

(c) Any extraordinary expenses incurred by the Company on behalf of the Customer not included in (a) or (b) above.

Minimum Charge: The minimum charge will be the sum of the Basic Customer Charge per Month, the monthly Reservation Charge and any monthly Special Surcharge.

ADMINISTRATIVE PROCEDURES

1. Processing Requests for Transportation Service: Requests for transportation hereunder shall be made by, and shall be deemed to be complete upon, the Customer providing the following information to the Company:

(a) Gas Quantities: The Maximum Daily Quantity applicable to the receipt point and the Maximum Daily Quantity applicable to each delivery point, and estimated total quantities to be received and transported monthly over the delivery period should be stated individually in therms for each receipt point.

(b) Delivery Point(s): Point(s) of delivery by the Company to the Customer.

(c) Term of Service:
  i. Date service requested to commence;
  ii. Date service requested to terminate, if known; and
  iii. Minimum term for transportation service shall be twelve (12) months.

(d) Performance: A statement from the Customer certifying that the Customer has or will have title to the gas to be delivered to the Company for transportation and has entered into or will enter into those arrangements necessary to assure all upstream transportation will be in place prior to the commencement of service under a Transportation Agreement. The Customer's Agent, if any, must be named.

Upon receipt of all of the information specified above, the Company shall prepare and tender to the Customer for execution a Transportation Agreement. If the Customer fails to execute the Transportation Agreement within thirty (30) days of the date tendered, the Customer's request shall be deemed null and void.

2. Construction Requirements: In the event that the Customer's request for service requires the construction of additional transmission facilities not otherwise addressed in section Payment For Excess Quantities herof, Extension of Lines, in the Company's current Rules and Regulations, the following additional provisions may apply:

(a) The Company may request an advance for engineering and design services based on the Company's estimate of the anticipated costs related to the requested dedicated facilities;

(b) Any advance for engineering and design will be refunded to the Customer on commencement of service;

(c) Actual engineering and design costs will be included in the dedicated facilities' costs and recovered as a part of the Reservation Charge;

(d) If the dedicated facilities are not placed in service for any reason, the Company may retain the advance;

(e) Prior to the initiation of construction of the dedicated facilities, the Company will provide an estimate of the total costs and resulting annual costs to Customer;

(f) The Company shall not be liable for any differences between actual construction costs and estimated costs;

(g) Customer may withdraw the request for service prior to initiation of construction; and

(h) The Customer may request that construction cease prior to completion. However, if the dedicated facilities are not completed or placed in service, the Customer is liable for service under the terms of this pricing plan as if the facilities had been completed, based on the total construction costs expended on behalf of the Customer.

OPERATING PROCEDURES

1. Nominating and Scheduling of Gas Receipts and Deliveries: The Customer shall be responsible for contacting the upstream pipelines to arrange for the nominating and scheduling of receipts and deliveries hereunder, provided, that the Customer may designate one (1) other party to serve as his agent for such purpose.

   The Customer or Customer's Agent shall be responsible for submitting nominations to the upstream pipeline and notifying the Company's designated representative in writing no later than one (1) hour prior to the upstream pipeline's nomination deadlines set forth in their FERC approved tariff. Such communication shall occur prior to the first of the month and within the month if there are changes to the nominations. The Customer is responsible for confirming the timely receipt of this information by the Company. The Company will confirm whether it has sufficient operational capacity to deliver all or a portion of the Customer's gas.

2. Operating Information and Estimates: Upon request of the Company, the Customer shall from time to time submit its best estimates of the daily, monthly and annual volumes of gas to be transported; including peak day requirements, together with such other operating data as the Company may require in order to schedule its operations.

3. The Company may require large Customers whose contractually allowed maximum daily quantity exceeds 10,000 therms per day, whose usage is not predictable based on weather, and whose ratio of high to low daily usage exceeds ten (10) to inform the Company within 2 hours of any initiation or termination of gas usage exceeding an hourly rate of 1,000 therms per hour.

4. Quantities: All quantities referred to under Operating Procedures shall be provided as dekatherms ("DTH") (one million British Thermal Units).

5. Deliverability: The Company shall not be liable for its failure to deliver gas when such failure is due to unavailability of gas supply or interruption of third party transportation services.

6. Other Operating Procedures: The Company may require additional information or enforce other operating procedures as deemed necessary in the Company's sole judgment, in order to coordinate gas volumes and the movement of gas through the upstream pipeline system to the Company's Arizona Gas Service Area. These additional operating procedures may be enforced upon verbal notice to each Customer or the Customer's Agent with twenty-four (24) hour notice of implementation.

7. Balancing: Balancing of thermally equivalent volumes of gas received and delivered shall be achieved as nearly as feasible on a daily basis, taking into account the Customer's right, subject to prior Company approval, to vary receipts and deliveries across the Company Distribution System. Customer monthly imbalances are defined as the difference between the Customer's total monthly metered quantities and the Customer's total scheduled transportation quantity. Customers are provided a monthly operating window, under which the Customer's cumulative imbalances must be within plus or minus 5 percent (+/- 5%) of the month's total of daily scheduled

transportation quantities, plus any Company-approved imbalance adjustment quantity, or 1,500 therms, whichever is greater. Imbalances established in excess of the applicable monthly operating window will be subject to imbalance charges as specified under Payment For Excess Quantities of this pricing plan. However, if the Customer has an imbalance outside this limit and contacts the Company before the end of the last business day of the month, the Customer will have a "cure period" of an additional 30 days to bring its imbalance within the limits before any imbalance charges specified under Payment For Excess Quantities are applied. Customer is then ineligible for a "cure period" for the following month. If in the Company's sole good faith judgment and operating conditions permit, the Company will increase the monthly operating window. Any imbalance (plus or minus) carried forward shall be considered first through the meter during the next daily or monthly period, as applicable.

8. Upon Customer request, the Company will permit electronic read-only access to the telemetering facilities described under Facility Additions or provide daily meter reads each calendar day.

9. Adjustments: Periodically, volume adjustments may be made by the upstream pipelines or the Customer's agent. Therefore, actual daily volumes invoiced will be compared with daily nominated volumes. Should adjustments to the nominated volumes become necessary, such adjustments will be applied to the nomination for the month in which the volumes were delivered to the Customer for the purposes of determining the applicability of the provisions of this pricing plan.

10. Customer Default: The Company shall not be required to perform or continue service on behalf of any Customer that fails to comply with the terms contained in this pricing plan and the terms of the Customer's Transportation Service Agreement with the Company. The Company shall have the right to waive any one or more specific defaults by any Customer under any provision of this pricing plan or the service agreement, provided, however, that no such waiver shall operate or be construed as a waiver of any other existing or future default or defaults, whether of a like or different character.

11. Operational Curtailment: The Company reserves the right to impose, at any time, any reasonable operating conditions upon the transportation of the Customer's gas which the Company, in its sole good faith judgment, deems necessary to maintain safe and efficient operation of its distribution system, or to make the operating terms and conditions of service hereunder compatible with those of its upstream pipelines. Under such circumstances, the following conditions shall apply:

12. Any Customer that does not comply with a notice of operational curtailment shall be subject to, in addition to any otherwise applicable charges, a penalty of $10.00 per DTH for all unauthorized quantities during the curtailment period.

13. The Company shall endeavor to provide notice of such operational curtailment forty-eight (48) hours prior to the commencement of the delivery of gas.

14. Notwithstanding condition (b), the Company may impose an operational curtailment on the current gas day. In the event an operational curtailment is imposed on the current gas day, a minimum one-hour grace period will be allowed before penalties begin to apply.

PAYMENT FOR EXCESS QUANTITIES

1. Customers will be assessed imbalance charges if an imbalance exists in excess of the applicable monthly operating window under the conditions set forth under Balacing described as part of Operating Procedures herein. The portion of any imbalance quantity established by a Customer in excess of the applicable monthly operating window is defined as an excess imbalance quantity. The imbalance charge will be based on the Company's short term purchases, where short term purchases are defined as gas for which the price is determined in the calendar month of use. In addition to the charges payable under this pricing plan, any monthly excess quantity shall be billed as follows:

   (a) Positive Excess Imbalance

   A positive excess imbalance exists when the Customer's scheduled transportation quantity exceeds the Customer's metered quantity by more than the applicable monthly operating window. The excess imbalance shall be retained by the Company and eliminated after the Customer's bill is credited as follows:

   (i) The price of the positive imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's least expensive short term purchases (including all upstream pipeline fuel and variable costs) for the aggregate positive imbalance volume associated with all T-2 customers. This weighted average cost per therm will be multiplied by the Customer's positive imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Positive" column in Table 1 below.

   (b) Negative Excess Imbalance

   A negative excess imbalance exists when the sum of the Customer's scheduled transportation quantity is less than the metered quantity by more than the applicable monthly operating window. The excess imbalance shall be eliminated after the Customer is billed as follows:

   (i) The price of the negative imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's most expensive short term purchases (including all upstream pipeline fuel, variable and capacity costs, at a 100% load factor) for the aggregate negative imbalance volume associated with all T-2 customers. This weighted average cost per therm will be multiplied by the Customer's negative imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Negative" column in Table 1 below.

Table 1

Percentage Excess Imbalance	Positive	Negative
Equal to or less than 5%	100%	100%
Over 5% and less than or equal to 15%	90%	110%
Over 15% and less than or equal to 20%	80%	120%
Over 20% and less than or equal to 30%	70%	130%
Over 30%	60%	140%

2. Should the Customer cease to utilize transportation service under this pricing plan, the entire remaining imbalance shall be settled pursuant to section Payment For Excess Quantities herein. For purposes of this settlement, no operating window applies.

3. Under no circumstances shall the section Payment For Excess Quantities above be considered as giving the Customer any right to take excess quantity gas, other than as provided in Operating Procedures hereof, nor shall the section Payment For Excess Quantities or payment thereunder be considered as a substitute for any other remedy available to the Company against the offending Customer for failure to respect its obligation to stay within its authorized quantities.

FACILITY ADDITIONS

Any facilities which must be installed by the Company to serve the Customer will be constructed in accordance with the Rules of Service as approved from time to time by the ACC. Telemetering facilities on each meter will be installed at the Customer's expense. Customers requiring telemetering facilities shall provide, at the Customer's expense, a dedicated telephone line for the Company's use in communicating with the telemetering facilities and will pay any and all costs associated with that phone line. Further, any existing special surcharges or minimum bill provisions designed to recover the cost of facilities for any Customer shall remain in effect and may serve to increase maximum allowable transportation rate levels pursuant to this pricing plan.

THIRD PARTY CHARGES

The Customer shall reimburse the Company for any charges rendered or billed to the Company by its upstream pipelines and by any other upstream transporter and gas gatherers, either before or after termination of the Transportation Agreement, which the Company, in its sole good faith judgment, determines have been incurred because of the transportation of Customer's gas hereunder and should, therefore, appropriately be borne by the Customer. Such charges, whether levied in dollars or gas, may include, but shall not be limited to, standby charges or reservation fees, prepayments, applicable taxes, applicable fuel reimbursement, shrinkage, lost and unaccounted for volumes, Gas Research Institute surcharges, penalty charges, and filing fees.

The Customer will reimburse the Company for all such charges incurred by the Company as rendered, irrespective of the actual quantities of natural gas delivered to the Customer.

CONDITIONS FOR CONVERTING TO T-2 SERVICE

Any qualified Customer converting from gas sales service to service under this pricing plan is subject to the following conditions and requirements:

1. T-2 service will commence at the beginning of the first calendar month following the end of five (5) days after receipt of the customer service change request or completion of any required facilities, whichever is later.

2. Customer will be billed or credited the Customer's pro rata share of the balance in the PGA bank accumulated while served under the Company's sales pricing plan, calculated as follows:

    (a) Starting from the later of the month of initiation of gas sales service by the Customer, or the date of initiation of the current PGA bank, through the Customer's last month of sales service, the Customer's actual therm usage will be multiplied, on a month-by-month basis, by the difference between the Company's actual commodity cost per therm and the Gas Cost component of the Base Cost of Service Rate adjusted for any PGA and PGA Surcharge that may be in effect from time-to-time;

    (b) The sum of these monthly calculated values equals the Customer's charge or credit due for conversion to service under this pricing plan;

    (c) Customer charge or credit will be paid in twelve (12) equal monthly payments, including interest equal to the carrying charge rate applicable to the PGA bank at the time of conversion to service under this pricing plan.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

CONDITIONS

1. Transportation of Customer owned natural gas hereunder shall be limited to natural gas of equal or higher quality than natural gas currently available from the Company's supplier(s). All gas delivered by the Company to the Customer shall be deemed to be the same quality as that gas received by the Company for transportation.

2. With respect to the Company's capacity to deliver gas at any particular time, the curtailment priority of any Customer served under this pricing plan shall be the same as the curtailment priority established for other Customers served pursuant to the Company's pricing plan, which would otherwise be applicable to such Customer.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan NSP-1
Negotiated Sales Program

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

Available to all customers who receive service under the Company's T-1 pricing plan (Transportation of Customer-Secured Natural Gas), T-2 pricing plan (Transportation Service Using Dedicated Transmission Facilities), or special gas supply agreements approved by the Arizona Corporation Commission ("ACC") that meet the minimum transportation requirements under the T-1 or T-2 pricing plans.

Service under the Negotiated Sales Program ("NSP") will be the sale of natural gas to a transportation customer who has negotiated with the Company for the delivery of natural gas to the interconnection of the Company's distribution system and an upstream pipeline at the City Gate. NSP service will be interruptible service at the election of the Customer.

RATE

The rates to be charged for this service shall be those negotiated between the Company and each Customer.

CONDITIONS

NSP service shall be provided subject to the provision of this pricing plan, the T-1 pricing plan, the T-2 pricing plan, or special gas supply agreements approved by the ACC, as applicable.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UNS Gas, Inc.
Pricing Plan CGS-1
Competitive Gas Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
Applicable to natural gas use by customers that quality for service under this pricing plan according to either applicability Provision 1. or 2. below:

1. Customers whose annual requirements are greater than 10,000 therms and who in the Company's sole judgment have facilities capable of installing or using alternative fuels or energy to adequately serve their needs.

2. Customers whose requirements may be served by other natural gas suppliers at rates lower than the customer's otherwise applicable gas sales pricing plan. As a condition precedent to qualifying for service under this applicability provision, the customer must establish to the satisfaction of the Company, that bypass is economically, operationally, and physically feasible.

Any gas service rendered to customers not in conformance with the provisions of this pricing plan shall be billed at a rate equivalent to the otherwise applicable gas sales pricing plan.

RATE
The maximum service charge is the charge under the customer's otherwise applicable gas sales pricing plan.

Unless otherwise provided, the commodity charge per therm shall be determined in accordance with Condition No. 2 defined below. In no event shall the commodity charge per therm be less than the "floor" cost of gas, which is defined as the sum of (1) the weighted average commodity cost of gas purchased by the Company for system supply during the month, (2) the applicable upstream pipeline capacity charge, and (3) an amount to reflect distribution system shrinkage.

For customers qualifying for service, and if the Company is unable to serve such customer utilizing the "floor" cost of gas as set forth above, a Special Gas Procurement Agreement shall be executed and filed with the Arizona Corporation Commission ("ACC"), and the commodity charge per therm shall be determined in accordance with Condition No. 3 defined below.

With the exception of gas sales provided for under Condition No. 3, the Company shall account for sales under this pricing plan using the "floor" cost of purchased gas.

SUPPLIER REFUNDS
If, as a result of any final Order of the Federal Energy Regulatory Commission or the ACC that is no longer subject to judicial review, the Company receives a refund from any of its upstream pipeline transporters or suppliers which is applicable to gas sales made under this Competitive Gas Service Pricing Plan, the Company shall allocate such refund to its customers based on the therms billed during the refund period. The amount allocated to the customers served under this pricing plan shall be used to reduce such customer's gas costs.

CONDITIONS

1. Any qualified customer taking service under this pricing plan shall do so by agreement.

2. The commodity charge per therm may vary from customer to customer based on value of the service and on the customer's ability to change from one energy source to another, and may be revised from time to time as costs and conditions change. In no event shall the commodity charge per therm charged to the customer, excluding gross revenue taxes, exceed the commodity charge per therm that would have been charged under the customer's otherwise applicable gas sales pricing plan, adjusted to exclude any surcharge to amortize the balance in the Gas Cost Balancing Account.

3. A Special Gas Procurement Agreement under this pricing plan is defined herein as an agreement between the Company and an applicable customer, which enumerates the provisions whereby the Company will procure specific supplies of gas for the customer. The commodity charge per therm for Special Gas Procurement Agreement customers may vary depending on the terms and conditions of the Agreement, but in no event shall be less than the variable cost of gas procured from suppliers on behalf of the customer. A sole and separate accounting of gas purchases and sales made under Special Gas Procurement Agreements shall be maintained by the Company. The cost of gas purchases made for such customers will be excluded from the Purchased Gas Adjustment in Rider RR-1. However, the Company shall credit to Account No. 191, Unrecovered Purchased Gas Costs, all upstream pipeline capacity charges collected from the customer. (Note: Upstream pipeline capacity charges will be priced at market-based rates.)

4. All customers that qualify for service under this pricing plan because of alternate energy capability must be capable of installing adequate alternate energy facilities of equivalent capacity to those natural gas facilities served hereunder. These facilities are subject to Company inspection and verification of operating capacity and capability.

5. Any customer served under this pricing plan who returns to an otherwise applicable gas sales pricing plan shall be billed at the then currently effective pricing plan.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy
SERVICES

UNS Gas, Inc.
Pricing Plan CNG-1
Compressed Natural Gas Service
(Separately Metered)

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

Service under this pricing plan is available to any customer where the customer purchases natural gas to be used as a motor fuel. Service will be separately metered. This rate may include compression by the Company beyond normal meter sales pressure.

RATE

Customer Charge: For customers using Compressed Natural Gas for only their own vehicle(s), the customer charge is that from the otherwise applicable pricing plan.

Basic Cost of Service Rates: The rate will be determined by a contract between the Company and the customer. In no case will the rate be lower than the Company's cost of gas, as determined by the most recent Purchased Gas Adjustment proceeding, nor will it be higher than one hundred fifty percent (150%) of the equivalent cost of premium gasoline.

Purchased Gas Adjustment: The basic cost of service rate set forth above shall be increased or decreased by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1. The purchased gas adjustment enables the Company to increase or decrease the basic cost of service rate in order to pass on increases or decreases in the base cost of gas to customers.

CONDITIONS

1. This pricing plan does not include any road use fees or permits.
2. Customer must provide an affidavit to the Company certifying that the gas delivered will be used as motor fuel.
3. Compressor stations are subject to inspection by qualified Company personnel.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSource Energy SERVICES

UNS Gas, Inc.
Pricing Plan EC-1
Electrical Cogeneration Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
Service under this pricing plan is available to any customer who enters into a contract with the Company to use natural gas for the purpose of cogeneration. Cogeneration is defined as the use of thermal energy to produce electricity with recapture of by-product heat in the form of steam, exhaust heat, etc. for industrial process use, space heating, food processing, or other purposes.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$105.00
Delivery Charge per therm @	$0.4488

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

CONDITIONS
1. Gas taken under this pricing plan shall be used exclusively for the purpose of cogeneration as defined in the Applicability section of this pricing plan and not for other purposes. The gas taken under this pricing plan will be separately metered.

2. This pricing plan will not be available for standby use.

3. For the purpose of this pricing plan, the annual load factor must be sixty percent (60%) or greater. The annual load factor is defined as the customer's total annual consumption divided by the customer's peak month consumption times twelve (12). If less than a sixty percent (60%) load factor occurs for a twelve (12) month period, the rate charged will be the rate that the customer would otherwise be served under for the months in which the annual load factor did not equal sixty percent (60%).

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSource Energy SERVICES

UNS Gas, Inc.
Pricing Plan MISC-1
Miscellaneous Service Fees
(DELETE – ALL SERVICE FEES ARE LOCATED IN THE RULES AND REGULATIONS – SEE STATEMENT OF ADDITIONAL CHARGES

In addition to the Pricing Plans on file and approved by the Arizona Corporation Commission for natural gas service, the following fees are also approved for the respective services listed:

<u>Service Transfer Fee</u>
Transfer of service from one customer to another, when meter is not turned off, per occurrence @ $15.00

<u>Collection Fee</u>
When overdue payment is collected by a Company representative at the customer's premises, per occurrence @ $20.00

<u>Special Call Out</u>
When a special call-out is required, the minimum charge shall be for one hour at the Company's then prevailing after hours rate for service work on the customer's premises.

<u>Establishment of Service</u>
During regular working hours, per occurrence @ $25.00
When performed outside of regular working hours, per occurrence @ $35.00

<u>Re-establishment, Reconnection of Service for Non-Payment</u>
During regular working hours, per occurrence @ $45.00
When performed outside of regular working hours, occurrence @ $55.00

<u>Re-establishment, Reconnection of Service for Other Reasons</u>
During regular working hours, per occurrence @ $35.00
When performed outside of regular working hours, per occurrence @ $45.00

<u>Customer Requested Meter Re-Reads</u>
When reading is correct, per occurrence @ $15.00

<u>Customer Requested Meter Test</u>
When meter tests are accurate within +/- 3%, per occurrence @ $65.00

<u>Insufficient Funds Check (NSF)</u>
Insufficient funds, per occurrence @ $15.00

<u>Multiple Attempts to Connect</u>
When more than one failed attempt to establish service due to customer not home or facilities not ready, per occurrence @ $15.00
Regular working hours are defined as non-holiday weekdays from 8:30 AM to 4:30 PM.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Rider RR-1
Purchased Gas Adjustment (PGA)

APPLICABILITY

To all Company pricing plans, unless otherwise specified.

CHANGE IN RATE

UNS GAS Pricing Plans shall include a Cost of Natural Gas Charge ("CNGC") which recovers the cost of gas (natural, manufactured or in any approved form) purchased by UES on behalf of its customer. The cost of natural gas shall include all costs (demand, energy, customer-related and other) of the physical gas commodity and all costs assessed to facilitate transportation and delivery of gas on a firm basis and at an appropriate pressure (unless otherwise specified by tariff or contract) to UES, including but not limited to carrying and other costs not elsewhere recovered. Carrying cost applied to PGA bank balances will be subject to the 3-month LIBOR rate as published by the Federal Reserve, plus 1.0% to cover the additional margin that UNS Gas must pay for short-term borrowings. The CNGC consists of the Purchased Gas Adjustment ("PGA") rate and any surcharge or credit authorized by the The Arizona Corporation Commission ("ACC") for recovery or refund of previous gas costs. The CNGC shall be subject to increases or decreases by the amount of the PGA which is based on the rolling twelve (12) month average of actual purchased gas costs and sales. The ACC has banded the PGA change so that the new PGA calculated for the month cannot be more than $0.15 per therm different than the PGA rate in effect during any of the preceding twelve (12) months, unless authorized by the ACC.

BANK BALANCE

The Company shall maintain an account to assure that it will neither over nor under collect, except to the extent authorized, as a result of adjustment in rates determined under the operation of this pricing plan. Entries shall be made monthly to reflect the amounts paid to suppliers for gas as recorded in the Federal Energy Regulatory Commission series of accounts numbered 800 through 806, less the cost of such gas (adjusted volumes multiplied by the CNGC). Interest will be applied to over and under collected bank balances based on the three (3) month commercial financial paper rate for each month, contained in the Federal Reserve Statistical Release, H-15, or its successor publication.

MONTHLY INFORMATION FILINGS

Each month, the Company shall make a cost of gas information filing that shall include gas volumes and costs by supply source, supplier refunds, credits, billing adjustments, and lost and unaccounted for gas. Each filing shall include monthly sales revenues, volumes, and number of customers by class. The filing should also include historical summaries of actual twelve (12) month purchase gas volumes, costs and sales activity to support the computation of the monthly PGA rate, in the format required by Decision Nos. 61225 and 62994.

ADDITIONAL REQUIREMENTS

Notification to the ACC is required if the PGA bank balance exceeds an over collection of $10,000,000. The Company must file an application for an adjustment within forty-five (45) days of completing the monthly informational filing that illustrates the threshold has been exceeded or contact the ACC to discuss why a credit is not necessary at this time. If the PGA bank balance is under collected, the Company has the right to file an application with the ACC requesting a surcharge. The ACC, upon review, may authorize the balance to be amortized through the surcharge/credit as part of the CNGC for a specified period. Lost and unaccounted for gas recovery is limited to the lesser of the actual costs incurred or up to five percent (5.00%) of total annual throughput.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

EXHIBIT

DBE-3

UNS GAS, INC.
TARIFFS

RED-LINED VERSION

FOR TEST YEAR SEPTEMBER 30, 2008

UniSource Energy SERVICES

UNS Gas, Inc.

Pricing Plan Summary

Pricing Plan	Pricing Plan Title	Therm Limits	Effective Date	Customer Charge	Charge per Therm (Excluding CNG)	ACC Decision
R-10	Residential Gas Service		XX/X/XX	$10.00	$0.3920	XXXXX
R-10	Residential Gas Service		XX/X/XX	$12.00	$0.3480	XXXXX
R-10	Residential Gas Service		XX/X/XX	$14.00	$0.3039	XXXXX
R-12	C.A.R.E.S. ($0.15 discount applicable for billing months of November - April)		XX/X/XX	$7.00	Summer $0.327000 Winter $0.177000	XXXXX
C-20	Small Volume Commercial Service	≤ 120,000 therms	XX/X/XX	$15.50	$0.3168	XXXXX
C-22	Large Volume Commercial Service	> 120,000 therms	XX/X/XX	$105.00	$0.2054	XXXXX
I-30	Small Volume Industrial Service	≤ 120,000 therms	XX/X/XX	$15.50	$0.2808	XXXXX
I-32	Large Volume Industrial Service	> 120,000 therms	XX/X/XX	$105.00	$0.1136	XXXXX
PA-40	Small Volume Public Authority Service	≤ 120,000 therms	XX/X/XX	$15.50	$0.3104	XXXXX
PA-42	Large Volume Public Authority Service	> 120,000 therms	XX/X/XX	$105.00	$0.1430	XXXXX
PA-44	Special Gas Light Service		XX/X/XX	Various		XXXXX
IR-60	Irrigation Service		XX/X/XX	$15.50	$0.3804	XXXXX
CGS-1	Competitive Gas Service	> 10,000 therms	XX/X/XX	Negotiated		XXXXX
CNG-1	Compressed Natural Gas Service		XX/X/XX	Various		XXXXX
EC-1	Electric Cogeneration Service		XX/X/XX	$105.00	$0.0488	XXXXX
MISC-1	Miscellaneous Service Fees		XX/X/XX	Various		XXXXX
NSP-1	Negotiated Sales Program		XX/X/XX	Negotiated		XXXXX
T-1	Transportation of Customer-Secured Natural Gas	> 120,000 therms	XX/X/XX	Otherwise applicable base rates less embedded gas costs		XXXXX
T-2	Transportation Service Using Dedicated Transmission Facilities	> 120,000 therms	XX/X/XX	See tariff for detail of applicable charges		XXXXX
RR-1	Purchased Gas Adjustment		XX/X/XX			XXXXX
RR-2	DSM Adjustor		12/1/07	N/A	$0.0025 per therm	Decision No. 70011

NOTE

All sales pricing plans above include a Cost of Natural Gas Charge (CNGC) which recovers the cost of natural gas purchased by UNSG on behalf of its customers.

The CNGC rate shall be subject to increases or decreases by the amount of the Purchased Gas Adjustment in accordance with the provisions of Rider RR-1

UniSourceEnergy
SERVICES

UNS Gas, Inc.
Pricing Plan R-10
Residential Gas Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

Subject to availability, at point of delivery, to residential gas service in individual residences and individually metered apartments when all service is metered through one meter.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month as of mm-dd-yyyy @	$10.00~~8.50~~
Minimum Customer Charge per month as of mm-dd-yyyy @	$12.00
Minimum Customer Charge per month as of mm-dd-yyyy @	$14.00
Delivery Charge per therm as of mm-dd-yyyy ~~@~~	$0.3920~~3270~~
Delivery Charge per therm as of mm-dd-yyyy @	$0.3480
Delivery Charge per therm as of mm-dd-yyyy @	$0.3039

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan R-12
Customer Assistance Residential Energy Support (C.A.R.E.S.)

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

Subject to availability, at point of delivery, to residential gas service in individual residences and individually metered apartments when all service is metered through one meter.

~~To gas service qualifying for billing under Residential Pricing Plan R-10 where the customer also has qualified for Pricing Plan R-12 as specified in the Company's plan for administration. All provisions of Pricing Plan R-10 will apply except as modified herein.~~

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

~~The monthly bill shall be in accordance with Pricing Plan R-10 except:~~

Minimum Customer Charge per month @	$7.00
Delivery Charge per therm @	$0.3270

Delivery Charge: first 100 therms or less per month will be discounted by $0.1500 per therm for the billing months of November through April.

SPECIAL CONDITIONS

1. Eligibility requirements for C.A.R.E.S. are set forth on the Company's Application and Declaration of Eligibility for Low Income Ratepayer Assistance form. Customers who desire to qualify for this pricing plan must initially make application to the Company for qualification and must provide verification to the Company that the customer's household gross income does not exceed one hundred fifty percent (150%) of the federal poverty level. Qualified customers must have an approved application form on file with the Company. Subsequent to the initial certification, the residential customer seeking to retain eligibility for the C.A.R.E.S. must provide a personal certification that the household gross income of the residential dwelling unit involved does not exceed one hundred fifty percent (150%) of the federal poverty level.

2. Samples of the existing C.A.R.E.S. participants will be re-certified every two years prior to October 1 and when a customer changes residence.

3. Eligible customers shall be billed under this pricing plan during the winter season, commencing with the next regularly scheduled billing period after the Company has received the customer's properly completed application form or re-certification.

4. Eligibility information provided by the customer on the application form may be subject to verification by the Company. Refusal or failure of a customer to provide documentation of eligibility acceptable to the Company, upon request of the Company, shall result in removal from or ineligibility for this pricing plan.

5. Customers who wrongfully declare eligibility or fail to notify the Company when they no longer meet the eligibility requirements may be rebilled for the period of ineligibility under their otherwise applicable residential pricing plan.

6. It is the responsibility of the customer to notify the Company within thirty (30) days of any changes in the customer's eligibility status.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan C-20
Small Volume Commercial Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
To all commercial customers whose primary business activity at the location served is not provided for under any other pricing plan, whose usage does not exceed 120,000 therms per year when all service is supplied at one point of delivery, and whose gas is metered through one meter.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$15.50~~3.50~~
Delivery Charge per therm @	$0.3168~~2638~~

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas ajustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy
SERVICES

UNS Gas, Inc.
Pricing Plan C-22
Large Volume Commercial Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
To all commercial customers whose primary business activity at the location served is not provided for under any other pricing plan and whose preceding twelve (12) month usage exceeded 120,000 therms. Service is supplied at one point of delivery and gas is metered through one meter unless the Company, at its sole discretion, chooses to provide service through multiple meters.

For new customers, their expected usage must exceed 120,000 therms per year.

Any customer transferring from this schedule may not return for a period of twelve (12) billing periods.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$105~~00~~.00
Delivery Charge per therm @	$0.2054~~1718~~

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy
SERVICES

UNS Gas, Inc.
Pricing Plan I-30
Small Volume Industrial Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
To all customers whose gas usage does not exceed 120,000 therms per year, who are served through a single meter, and whose primary business activity at the location served is included in one of the following classifications of the North American Classification System, United States:

Sector 11. Agriculture, Forestry, Fishing and Hunting: Subsector 111. Crop Production only;
Sector 21. Mining: All Subsectors;
Sector 22. Utilities: Power Generation Subsectors only; and
Sectors 31-33. Manufacturing: All Subsectors.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$15.50~~3.50~~
Delivery Charge per therm @	$0.2808~~356~~

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy
SERVICES

UNS Gas, Inc.
Pricing Plan I-32
Large Volume Industrial Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all customers whose gas usage over the preceding twelve (12) months exceeded 120,000 therms, and whose primary business activity at the location served is included in one of the following classifications of the North American Classification System, United States:

Sector 11. Agriculture, Forestry, Fishing and Hunting: Subsector 111. Crop Production only;
Sector 21. Mining: All Subsectors;
Sector 22. Utilities: Power Generation Subsectors only; and
Sectors 31-33. Manufacturing: All Subsectors.

Service is supplied at one point of delivery and gas is metered through one meter unless the Company, at its sole discretion, chooses to provide service through multiple meters.

For new customers, their expected usage must exceed 120,000 therms per year.
Any customer transferring from this pricing plan may not return for a period of twelve (12) billing months.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$105~~0~~.00
Delivery Charge per therm @	$0.1136~~0952~~

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

Filed By:	Raymond S. Heyman	Tariff No.:	I-32
Title:	Senior Vice President, General Counsel	Effective:	~~December 1, 2007~~PENDING
District:	Entire Gas Service Area	Page No.:	1 of 1

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan PA-40
Small Volume Public Authority Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
To all facilities owned or operated by governmental agencies whose primary business activity at the location served is not provided for under any other pricing plan or special contract, whose usage does not exceed 120,000 therms per year when all service is supplied at one point of delivery and gas is metered through one meter.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$15.50~~3.50~~
Delivery Charge per therm @	$0.31042~~593~~

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan PA-42
Large Volume Public Authority Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

To all facilities owned or operated by governmental agencies whose primary business activity at the location served is not provided for under any other pricing plan or special contract. Under this pricing plan, usage over the preceding twelve (12) months must exceed 120,000 therms when all service is supplied at one point of delivery and gas is metered through one meter unless the Company, at its sole discretion, chooses to provide service through multiple meters.

For new customers, their expected usage must exceed 120,000 therms per year.

Any customer transferring from this pricing plan may not return for a period of twelve (12) billing months.

RATE

A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$105~~00~~.00
Delivery Charge per therm @	$0.1430~~198~~

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

Filed By:	Raymond S. Heyman	Tariff No.:	PA-42
Title:	Senior Vice President, General Counsel	Effective:	~~December 1, 2007~~PENDING
District:	Entire Gas Service Area	Page No.:	1 of 1

UniSourceEnergy
SERVICES

UNS Gas, Inc.
Pricing Plan PA-44
Special Gas Light Service

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the facilities served.

APPLICABILITY

To all public authority customers for the operation by the Company of gas lights for streets in which gas distribution facilities are located.

RATE

A monthly net bill at the following rates plus any adjustments incorporated in this pricing plan:

Single Orifice @	$21.57~~3.72~~
Double Orifice @	$43.13~~39.53~~
Triple Orifice @	$64.70~~54.86~~
Quadruple Orifice @	$86.27~~71.16~~

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. -The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

~~Lake Havasu City~~

~~Lighting Group A per light per month @ $15.17~~
~~Lighting Group B per light per month @ $18.20~~
~~(Lighting Groups defined below)~~

CONDITIONS

~~The following definitions shall apply for Lake Havasu City Gas Lights:~~

~~a.Lighting Group A includes those 14 lights on McCullough Boulevard between Smoketree and Lake Havasu Avenue and those 62 lights in the Lake Havasu Mobile Trailer Parks;~~
~~b.Lighting Group B includes those 316 lights on the Country Club Golf Course;~~

UniSource Energy SERVICES

UNS Gas, Inc.
Pricing Plan PA-44
Special Gas Light Service

~~PRICING PLAN PA-44 (continued)~~

21. Contracts for gas lighting service under this pricing plan must be for a minimum term of five (5) years.

23. The cost of relocation of any gas light that is requested by the customer will be reimbursed to the Company by the customer.

24. The customer is not authorized to make any connections to gas lines serving individual gas lights or make any alteration of such lights.

[illegible]. The Company will use diligence in maintaining gas lighting service and monthly bills will not be reduced because of any gas light outage.

[illegible]. Any special contracts for public authority lighting will be based on an analysis of costs of operation, maintenance, and investment. Any contracts pursuant to this pricing plan, which provide for higher rates than set forth in this pricing plan, will be filed with the Arizona Corporation Commission for approval.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan IR-60
Irrigation Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
To all irrigation customers whose primary business activity at the location served is not provided for under any other pricing plan, who operates one or more gas-fueled engines, and gas is metered through one meter.

The Company may require that gas for engine use be separately metered and billed if necessary to prevent abuse or inequity in the application of this rate.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$15.50~~3.50~~
Delivery Charge per therm @	$0.3804~~192~~

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
Applicable to natural gas use by customers that quality for service under this pricing plan according to either applicability Provision 1. or 2. below:

1. Customers whose annual requirements are greater than 10,000 therms and who in the Company's sole judgment have facilities capable of installing or using alternative fuels or energy to adequately serve their needs.

2. Customers whose requirements may be served by other natural gas suppliers at rates lower than the customer's otherwise applicable gas sales pricing plan. As a condition precedent to qualifying for service under this applicability provision, the customer must establish to the satisfaction of the Company, that bypass is economically, operationally, and physically feasible.

Any gas service rendered to customers not in conformance with the provisions of this pricing plan shall be billed at a rate equivalent to the otherwise applicable gas sales pricing plan.

RATE
The maximum service charge is the charge under the customer's otherwise applicable gas sales pricing plan.

Unless otherwise provided, the commodity charge per therm shall be determined in accordance with Condition No. 2 defined below. In no event shall the commodity charge per therm be less than the "floor" cost of gas, which is defined as the sum of (1) the weighted average commodity cost of gas purchased by the Company for system supply during the month, (2) the applicable upstream pipeline capacity charge, and (3) an amount to reflect distribution system shrinkage.

For customers qualifying for service, and if the Company is unable to serve such customer utilizing the "floor" cost of gas as set forth above, a Special Gas Procurement Agreement shall be executed and filed with the Arizona Corporation Commission ("ACC"), and the commodity charge per therm shall be determined in accordance with Condition No. 3 defined below.

With the exception of gas sales provided for under Condition No. 3, the Company shall account for sales under this pricing plan using the "floor" cost of purchased gas.

SUPPLIER REFUNDS
If, as a result of any final Order of the Federal Energy Regulatory Commission or the ACC that is no longer subject to judicial review, the Company receives a refund from any of its upstream pipeline transporters or suppliers which is applicable to gas sales made under this Competitive Gas Service Pricing Plan, the Company shall allocate such refund to its customers based on the therms billed during the refund period. The amount allocated to the customers served under this pricing plan shall be used to reduce such customer's gas costs.

CONDITIONS

1. Any qualified customer taking service under this pricing plan shall do so by agreement.

2. The commodity charge per therm may vary from customer to customer based on value of the service and on the customer's ability to change from one energy source to another, and may be revised from time to time as costs and conditions change. In no event shall the commodity charge per therm charged to the customer, excluding gross revenue taxes, exceed the commodity charge per therm that would have been charged under the customer's otherwise applicable gas sales pricing plan, adjusted to exclude any surcharge to amortize the balance in the Gas Cost Balancing Account.

3. A Special Gas Procurement Agreement under this pricing plan is defined herein as an agreement between the Company and an applicable customer, which enumerates the provisions whereby the Company will procure specific supplies of gas for the customer. The commodity charge per therm for Special Gas Procurement Agreement customers may vary depending on the terms and conditions of the Agreement, but in no event shall be less than the variable cost of gas procured from suppliers on behalf of the customer. A sole and separate accounting of gas purchases and sales made under Special Gas Procurement Agreements shall be maintained by the Company. The cost of gas purchases made for such customers will be excluded from the Purchased Gas Adjustment in Rider RR-1. However, the Company shall credit to Account No. 191, Unrecovered Purchased Gas Costs, all upstream pipeline capacity charges collected from the customer. (Note: Upstream pipeline capacity charges will be priced at market-based rates.)

4. All customers that qualify for service under this pricing plan because of alternate energy capability must be capable of installing adequate alternate energy facilities of equivalent capacity to those natural gas facilities served hereunder. These facilities are subject to Company inspection and verification of operating capacity and capability.

5. Any customer served under this pricing plan who returns to an otherwise applicable gas sales pricing plan shall be billed at the then currently effective pricing plan.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan CNG-1
Compressed Natural Gas Service
(Separately Metered)

AVAILABILITY

In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY

Service under this pricing plan is available to any customer where the customer purchases natural gas to be used as a motor fuel. Service will be separately metered. This rate may include compression by the Company beyond normal meter sales pressure.

RATE

Customer Charge: For customers using Compressed Natural Gas for only their own vehicle(s), the customer charge is that from the otherwise applicable pricing plan. ~~For all others, it is $30.00 per meter per month.~~

Basic Cost of Service Rates: The rate will be determined by a contract between the Company and the customer. In no case will the rate be lower than the Company's cost of gas, as determined by the most recent Purchased Gas Adjustment proceeding, nor will it be higher than one hundred fifty percent (150%) of the equivalent cost of premium gasoline.

Purchased Gas Adjustment: The basic cost of service rate set forth above shall be increased or decreased by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1. The purchased gas adjustment enables the Company to increase or decrease the basic cost of service rate in order to pass on increases or decreases in the base cost of gas to customers.

CONDITIONS

1. This pricing plan does not include any road use fees or permits.
2. Customer must provide an affidavit to the Company certifying that the gas delivered will be used as motor fuel.
3. *Compressor stations are subject to inspection by qualified Company personnel.*

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan EC-1
Electrical Cogeneration Service

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
Service under this pricing plan is available to any customer who enters into a contract with the Company to use natural gas for the purpose of cogeneration. Cogeneration is defined as the use of thermal energy to produce electricity with recapture of by-product heat in the form of steam, exhaust heat, etc. for industrial process use, space heating, food processing, or other purposes.

RATE
A monthly net bill at the following rate plus any adjustments incorporated in this pricing plan:

Minimum Customer Charge per month @	$105~~0~~.00
Delivery Charge per therm @	$0.4488

Cost of Natural Gas Charge ("CNGC"): This charge recovers the cost of natural gas purchased by UES on behalf of its customer. The CNGC shall be subject to increases or decreases by the amount of the purchased gas adjustment for the billing month computed in accordance with the provisions of Rider RR-1.

CONDITIONS
1. Gas taken under this pricing plan shall be used exclusively for the purpose of cogeneration as defined in the Applicability section of this pricing plan and not for other purposes. The gas taken under this pricing plan will be separately metered.

2. This pricing plan will not be available for standby use.

3. For the purpose of this pricing plan, the annual load factor must be sixty percent (60%) or greater. The annual load factor is defined as the customer's total annual consumption divided by the customer's peak month consumption times twelve (12). If less than a sixty percent (60%) load factor occurs for a twelve (12) month period, the rate charged will be the rate that the customer would otherwise be served under for the months in which the annual load factor did not equal sixty percent (60%).

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan NSP-1
Negotiated Sales Program

AVAILABILITY
In all territories served by Company at all points where facilities for gas service are available to the premise served.

APPLICABILITY
Available to all customers who receive service under the Company's T-1 pricing plan (Transportation of Customer-Secured Natural Gas), T-2 pricing plan (Transportation Service Using Dedicated Transmission Facilities), or special gas supply agreements approved by the Arizona Corporation Commission ("ACC") that meet the minimum transportation requirements under the T-1 or T-2 pricing plans.

Service under the Negotiated Sales Program ("NSP") will be the sale of natural gas to a transportation customer who has negotiated with the Company for the delivery of natural gas to the interconnection of the Company's distribution system and an upstream pipeline at the City Gate. NSP service will be interruptible service at the election of the Customer.

RATE
The rates to be charged for this service shall be those negotiated between the Company and each Customer.

CONDITIONS
NSP service shall be provided subject to the provision of this pricing plan, the T-1 pricing plan, the T-2 pricing plan, or special gas supply agreements approved by the ACC, as applicable.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan MISC-1
Miscellaneous Service Fees
(DELETE – ALL SERVICE FEES ARE LOCATED IN THE RULES AND REGULATIONS – SEE STATEMENT OF ADDITIONAL CHARGES

In addition to the Pricing Plans on file and approved by the Arizona Corporation Commission for natural gas service, the following fees are also approved for the respective services listed:

Service Transfer Fee
Transfer of service from one customer to another, when meter is not turned off, per occurrence @ $15.00

Collection Fee
When overdue payment is collected by a Company representative at the customer's premises, per occurrence @ $20.00

Special Call Out
When a special call-out is required, the minimum charge shall be for one hour at the Company's then prevailing after hours rate for service work on the customer's premises.

Establishment of Service
During regular working hours, per occurrence @ $25.00
When performed outside of regular working hours, per occurrence @ $35.00

Re-establishment, Reconnection of Service for Non-Payment
During regular working hours, per occurrence @ $45.00
When performed outside of regular working hours, occurrence @ $55.00

Re-establishment, Reconnection of Service for Other Reasons
During regular working hours, per occurrence @ $35.00
When performed outside of regular working hours, per occurrence @ $45.00

Customer Requested Meter Re-Reads
When reading is correct, per occurrence @ $15.00

Customer Requested Meter Test
When meter tests are accurate within +/- 3%, per occurrence @ $65.00

Insufficient Funds Check (NSF)
Insufficient funds, per occurrence @ $15.00

Multiple Attempts to Connect
When more than one failed attempt to establish service due to customer not home or facilities not ready, per occurrence @ $15.00
Regular working hours are defined as non-holiday weekdays from 8:30 AM to 4:30 PM.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan T-1 Supplementary Information
Transportation of Customer-Secured Natural Gas

Transportation customers procure their own gas and UNS Gas, Inc. ("Company") transports it from the connection with the interstate pipeline (at the city gate) over the Company's pipeline system to the customer's facility. To qualify, customers must use a minimum of 120,000 therms per year.

The rates per therm for transportation service from the city gate to the customer's facility are as follows:

Large Volume Commercial	\$0.2054~~1718~~ per therm
Large Volume Industrial	\$0.1136~~0952~~ per therm
Large Volume Public Authority	\$0.1430~~1198~~ per therm

Customers must also pay for the following items:

1. Charges for lost and unaccounted for gas in accordance with Pricing Plan T-1 (Transportation of Customer-Secured Natural Gas);
2. A minimum Customer Charge of \$105~~0~~ per month;
3. Telemetering equipment and a telephone line; and
4. The costs for delivery of gas to the city gate.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan T-1
Transportation of Customer-Secured Natural Gas

AVAILABILITY

This pricing plan is available to any qualifying Customer for transportation of natural gas by the Company from existing interconnects between the Company and upstream pipelines (herein called Receipt Point) to the Delivery Point(s) on the Company's system throughout its certificated Arizona Gas Service Area under the following conditions:

1. The Company has available capacity to render the requested service without construction of any additional facilities, except as provided by ~~Section 8 of~~ this pricing plan under Facility Additions..

2. The Customer has demonstrated to the Company's satisfaction the assurance of natural gas supplies and third-party transportation agreements with quantities, and for a term compatible with the service being requested from the Company.

3. The Customer and the Company have executed a Transportation Agreement, and the Customer is to be the End-User.

4. The Customer's gas to be transported is greater than 120,000 therms per year. A Customer receiving service from the Company at multiple locations may aggregate meters with annual consumption of no less than 50,000 therms per meter to qualify for this service provided that all meter locations are served under a single entity. In addition, the annual consumption of customers that are aggregated must be greater than 120,000 therms per year.

APPLICABILITY

This pricing plan shall apply to gas transported by the Company for Customer pursuant to the executed service agreement.

1. The basic transportation service rendered under this pricing plan shall consist of:

   (a) The receipt by the Company for the account of the Customer of the Customer's gas at the Receipt Point;

   (b) The transportation of gas through the Company's gas system for the account of the Customer; and

   (c) The delivery of gas after transportation by the Company for the account of the Customer at the Delivery Point(s).

2. Transportation: Service is firm and uninterrupted except for the following:

   (a) Curtailment in accordance with the Company's curtailment priority procedures;

   (b) When the Company determines it has insufficient capacity on its system or from its upstream pipeline; or

   (c) Customer's gas supply to the Company is insufficient to meet its requirement.

3. Any Customer served under this pricing plan that requests service under a sales pricing plan is ineligible to return to transportation service for a period of not less than twelve (12) months.

RATES

A discount from the following rates may be offered at the sole discretion of the Company if such discount is in the best interest of the Company and its ratepayers. The maximum amount that the Customer shall pay the Company monthly will be the sum of the following charges:

Customer Charge per Month: $105~~0~~.00 per meter

Volume Charge: An amount equal to the applicable unit transportation rate for each therm of Customer-secured gas metered and delivered to the Customer. The unit rates shall be as set forth in the currently effective Pricing Plan Summary. The volume charge will consist of the following:

(a) An amount equal to the applicable unit sales margin for each therm as set forth in the Customer's otherwise applicable sales pricing plan for each meter. This volume charge will cover the Company's Delivery Charge as specified in the currently effective gas sales pricing plan but not including the base cost of gas specified therein.
~~In no event will the minimum charge be less than that set forth in Section 4.1 below.~~

(b) An amount to reflect lost and unaccounted for gas as determined by the differential between the gas costs on a sales basis and gas costs on a purchase basis determined in the development of the currently effective, Purchased Gas Adjustment ("PGA"), Rate Rider No. RR-1. The Company, at its sole option, may allow lost and unaccounted for gas to be paid in kind.

(c) Any applicable imbalance charges as specified in Payment For Excess Quantities ~~Section 7~~ of this pricing plan.

(d) Any charges from upstream pipeline transporters or suppliers which have been incurred by the Company in excess of those specified in section (c) above and are deemed by the Company to be applicable to the transportation service rendered for the Customer under these pricing plans.

Minimun Charge: The minimum charge will be the Basic Customer Charge per Month plus $0.005 per therm.

ADMINISTRATIVE PROCEDURES

1. Processing Requests for Transportation Service: Requests for transportation hereunder shall be made by, and shall be deemed to be complete upon, the Customer providing the following information to the Company:

(a) Gas Quantities: The Maximum Daily Quantity applicable to the receipt point and the Maximum Daily Quantity applicable to each delivery point and estimated total quantities to be received and transported monthly over the delivery period should be stated individually in therms for each receipt point.

(b) Delivery Point(s): Point(s) of delivery by the Company to the Customer.

(c) Term of Service:
i. Date of service requested to commence;
ii. Date service requested to terminate, if known; and
iii. Minimum term for transportation service shall be twelve (12) months.

(d) Performance: A statement from the Customer certifying that the Customer has or will have title to the gas to be delivered to the Company for transportation and has entered into or will enter into those arrangements necessary to assure all upstream transportation will be in place prior to the commencement of service under a Transportation Agreement. The Customer's Agent, if any, must be named.

Upon receipt of all of the information specified above, the Company shall prepare and tender to the Customer for execution a Transportation Agreement. If the Customer fails to execute the Transportation Agreement within thirty (30) days of the date tendered, the Customer's request shall be deemed null and void.

OPERATING PROCEDURES

1. Nominating and Scheduling of Gas Receipts and Deliveries: The Customer shall be responsible for contacting the upstream pipelines to arrange for the nominating and scheduling of receipts and deliveries hereunder, provided, that the Customer may designate one (1) other party to serve as his agent for such purpose.

The Customer or Customer's Agent shall be responsible for submitting nominations to the upstream pipeline and notifying the Company's designated representative in writing no later than one (1) hour prior to the upstream pipeline's nomination deadlines set forth in their FERC approved tariff. Such communication shall occur prior to the first of the month and within the month if there are changes to the nominations. The Customer is responsible for confirming the timely receipt of this information by the Company. The Company will confirm whether it has sufficient operational capacity to deliver all or a portion of the Customer's gas.

2. Operating Information and Estimates: Upon request of the Company, the Customer shall from time to time submit its best estimates of the daily, monthly and annual volumes of gas to be transported; including peak day requirements, together with such other operating data as the Company may require in order to schedule its operations.

   The Company may require large Customers whose contractually allowed maximum daily quantity exceeds 10,000 therms per day, whose usage is not predictable based on weather, and whose ratio of high to low daily usage exceeds ten (10) to inform the Company within 2 hours of any initiation or termination of gas usage exceeding an hourly rate of 1,000 therms per hour.

3. Quantities: All quantities referred to under ~~in~~ Operating Procedures of this pricing plan ~~Section 6~~ shall be provided as dekatherms ("DTH") (one million British Thermal Units).

4. Deliverability: The Company shall not be liable for its failure to deliver gas when such failure is due to unavailability of gas supply or interruption of third party transportation services.

5. Other Operating Procedures: The Company may require additional information or enforce other operating procedures as deemed necessary in the Company's sole judgment, in order to coordinate gas volumes and the movement of gas through the upstream pipeline system to the Company's Arizona Gas Service Area. These additional operating procedures may be enforced upon verbal notice to each Customer or the Customer's Agent with twenty-four (24) hour notice of implementation.

6. Balancing: Balancing of thermally equivalent volumes of gas received and delivered shall be achieved as nearly as feasible on a daily basis, taking into account the Customer's right, subject to prior Company approval, to vary receipts and deliveries across the Company Distribution System. Customer monthly imbalances are defined as the difference between the Customer's total monthly metered quantities and the Customer's total scheduled transportation quantity. Customers are provided a monthly operating window, under which the Customer's cumulative imbalances must be within plus or minus 5 percent (+/- 5%) of the month's total of daily scheduled transportation quantities, plus any Company-approved imbalance adjustment quantity, or 1,5000~~,000~~ therms, whichever is greater. Imbalances established in excess of the applicable monthly operating window will be subject to imbalance charges as specified in Payment for Excess Quantities ~~Section 7~~ of this pricing plan. However, if the Customer has an imbalance outside this limit and contacts the Company before the end of the last business day of the month, the Customer will have a "cure period" of an additional 30 days to bring its imbalance within the limits before any imbalance charges specified in Payment for Excess Quantities ~~Section 7~~ are applied. Customer is then ineligible for a "cure period" for the following month._ If in the Company's sole good faith judgment and operating conditions permit, the Company will increase the monthly operating window. Any imbalance (plus or minus) carried forward shall be considered first through the meter during the next daily or monthly period, as applicable.

   Upon Customer request, the Company will permit electronic read-only access to the telemetering facilities described in Facility Additions of this pricing plan ~~Section 8~~ or provide daily meter reads each calendar day.

7. Adjustments: Periodically, volume adjustments may be made by the upstream pipelines or the Customer's agent. Therefore, actual daily volumes invoiced will be compared with daily nominated volumes. Should adjustments to the nominated volumes become necessary, such adjustments will be applied to the nomination for the month in which the volumes were delivered to the Customer for the purposes of determining the applicability of the provisions of this pricing plan.

8. Customer Default: The Company shall not be required to perform or continue service on behalf of any Customer that fails to comply with the terms contained in this pricing plan and the terms of the Customer's Transportation Service Agreement with the Company. The Company shall have the right to waive any one or more specific defaults by any Customer under any provision of this pricing plan or the service agreement, provided, however, that no such waiver shall operate or be construed as a waiver of any other existing or future default or defaults, whether of a like or different character.

9. Operational Curtailment: The Company reserves the right to impose, at any time, any reasonable operating conditions upon the transportation of the Customer's gas which the Company, in its sole good faith judgment, deems necessary to maintain safe and efficient operation of its distribution system, or to make the operating terms and conditions of service hereunder compatible with those of its upstream pipelines. Under such circumstances, the following conditions shall apply:

   (a) Any Customer that does not comply with a notice of operational curtailment shall be subject to, in addition to any otherwise applicable charges, a penalty of $10.00 per DTH for all unauthorized quantities during the curtailment period.

   (b) The Company shall endeavor to provide notice of such operational curtailment forty-eight (48) hours prior to the commencement of the delivery of gas.

   (c) Notwithstanding condition (b), the Company may impose an operational curtailment on the current gas day. In the event an operational curtailment is imposed on the current gas day, a minimum one-hour grace period will be allowed before penalties begin to apply.

PAYMENT FOR EXCESS QUANTITIES

1. Customers will be assessed imbalance charges if an imbalance exists in excess of the applicable monthly operating window under the conditions set forth in Balacing described as part of Operating Procedures ~~Section 6.6~~ herein. The portion of any imbalance quantity established by a Customer in excess of the applicable monthly operating window is defined as an excess imbalance quantity. The imbalance charge will be based on the Company's short term purchases, where short term purchases are defined as gas for which the price is determined in the calendar month of use. In addition to the charges payable under this pricing plan, any monthly excess quantity shall be billed as follows:

(a) Positive Excess Imbalance

A positive excess imbalance exists when the Customer's scheduled transportation quantity exceeds the Customer's metered quantity by more than the applicable monthly operating window. The excess imbalance shall be retained by the Company and eliminated after the Customer's bill is credited as follows:

(i) The price of the positive imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's least expensive short term purchases (including all upstream pipeline fuel and variable costs) for the aggregate positive imbalance volume associated with all T-1 customers. This weighted average cost per therm will be multiplied by the Customer's positive imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Positive" column in Table 1 below.

(b) Negative Excess Imbalance

A negative excess imbalance exists when the sum of the Customer's scheduled transportation quantity is less than the metered quantity by more than the applicable monthly operating window. The excess imbalance shall be eliminated after the Customer is billed as follows:

(i) The price of the negative imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's most expensive short term purchases (including all upstream pipeline fuel, variable and capacity costs, at a 100% load factor) for the aggregate negative imbalance volume associated with all T-1 customers. This weighted average cost per therm will be multiplied by the Customer's negative imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Negative" column in Table 1 below.

Table 1

Percentage Excess Imbalance	Positive	Negative
Equal to or less than 5%	100%	100%
Over 5% and less than or equal to 15%	90%	110%
Over 15% and less than or equal to 20%	80%	120%
Over 20% and less than or equal to 30%	70%	130%
Over 30%	60%	140%

2. Should the Customer cease to utilize transportation service under this pricing plan, the entire remaining imbalance shall be settled pursuant to section Payment For Excess Quantities herein.~~Section 7.1.~~ For purposes of this settlement, no operating window applies.

3. Under no circumstances shall the ~~S~~section Payment For Excess Quantities ~~7.1~~ above be considered as giving the Customer any right to take excess quantity gas, other than as provided in Operating Procedures ~~by Section 6.6~~ hereof, nor shall the s~~S~~ection Payment For Excess Quantities ~~7.1~~ or payment thereunder be considered as a substitute for any other remedy available to the Company against the offending Customer for failure to respect its obligation to stay within its authorized quantities.

FACILITY ADDITIONS

Any facilities which must be installed by the Company to serve the Customer will be constructed in accordance with the Rules and Regulations as approved from time to time by the Arizona Corporation Commission. Telemetering facilities on each meter will be installed at the Customer's expense. Customers requiring telemetering facilities shall provide, at the Customer's expense, a dedicated telephone line for the Company's use in communicating with the telemetering facilities and will pay any and all costs associated with that phone line. Further, any existing special surcharges or minimum bill provisions designed to recover the cost of facilities for any Customer shall remain in effect and may serve to increase maximum allowable transportation rate levels pursuant to this pricing plan.

THIRD PARTY CHARGES

The Customer shall reimburse the Company for any charges rendered or billed to the Company by its upstream pipelines and by any other upstream transporter and gas gatherers, either before or after termination of the Transportation Agreement, which the Company, in its sole good faith judgment, determines have been incurred because of the transportation of Customer's gas hereunder and should, therefore, appropriately be borne by the Customer. Such charges, whether levied in dollars or gas, may include, but shall not be limited to, standby charges or reservation fees, prepayments, applicable taxes, applicable fuel reimbursement, shrinkage, lost and unaccounted for volumes, Gas Research Institute surcharges, penalty charges and filing fees.

The Customer will reimburse the Company for all such charges incurred by the Company as rendered, irrespective of the actual quantities of natural gas delivered to the Customer.

CONDITIONS FOR CONVERTING TO T-1 SERVICE

Any qualified Customer converting from gas sales service to service under this pricing plan is subject to the following conditions and requirements:

1. T-1 service will commence at the beginning of the first calendar month following the end of five (5) days after receipt of the customer service change request.

2. Customer will be billed or credited the Customer's pro rata share of the balance in the Company's PGA bank, calculated as follows:

(a) Starting from the later of the month of initiation of gas sales service by the Customer, or the date of initiation of the current PGA bank, through the last month of sales service, the Customer's actual therm usage will be multiplied, on a month-by-month basis, by the difference between the Company's actual commodity cost per therm and the Gas Cost component of the Basic Cost of Service Rate adjusted for any PGA and PGA Surcharge that may be in effect from time to time;

(b) The sum of these monthly calculated values equals the Customer's charge or credit due for conversion to service under this pricing plan;

(c) Customer charge or credit will be paid in twelve (12) equal monthly payments, including interest equal to the carrying charge rate applicable to the PGA bank at the time of conversion to service under this pricing plan.

3. If a Customer converts back to a pricing plan for gas sales service while the PGA Surcharge existing at the time of the switch to T-1 service is still in effect, such Surcharge will not be applicable to the Customer's billed usage for the period it remains in effect. However, any future PGA Surcharge that may be put into effect will be applicable to the Customer's billed usage.

TAX CLAUSE
To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS
The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

CONDITIONS

1. Transportation of Customer-owned natural gas hereunder shall be limited to natural gas of equal or higher quality than natural gas currently available from the Company's supplier(s). All gas delivered by the Company to the Customer shall be deemed to be the same quality as that gas received by the Company for transportation.

2. With respect to the Company's capacity to deliver gas at any particular time, the curtailment priority of any Customer served under this pricing plan shall be the same as the curtailment priority established for other Customers served pursuant to the Company's pricing plan which would otherwise be available to such Customer.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Pricing Plan T-2
Transportation Service Using Dedicated Transmission Facilities

AVAILABILITY

This pricing plan is only available to any qualifying Customer for transportation of natural gas by the Company from dedicated interconnects between the Company and upstream pipelines (herein called Receipt Point) to the Delivery Point(s) on the Company's transmission system throughout its certificated Arizona Gas Service Area under the following conditions:

1. The Company has or will have available capacity to render the requested service utilizing facilities dedicated to the requirements of the Customer, except as provided under Facility Additions ~~by Section 8~~ hereof;

2. The Customer has demonstrated to the Company's satisfaction the assurance of natural gas supplies and third-party transportation agreements with quantities and for a term compatible with the service being requested from the Company;

3. The Customer and the Company have executed a Transportation Agreement, and the Customer is to be the End-User;

4. The Customer's requirement for gas to be transported is greater than 1,000 therms per day or 120,000 therms per year; and

5. The Customer is not taking service through dedicated facilities under the provisions of a special contract approved by the Arizona Corporation Commission ("ACC").

6. The Customer is classified as a utility that produces electricity.

APPLICABILITY

This pricing plan shall apply to gas transported by the Company for Customer pursuant to the executed service agreement.

1. The basic transportation service rendered under this pricing plan shall consist of:

   (a) The receipt by the Company for the account of the Customer of the Customer's gas at the Receipt Point;

   (b) The transportation of gas through the Company's gas system for the account of the Customer; and

   (c) The delivery of gas after transportation by the Company for the account of the Customer at the Delivery Point(s).

2. Transportation: Service is firm and uninterrupted except for the following:

   (a) Curtailment in accordance with the Company's curtailment priority procedures;

   (b) When the Company determines it has insufficient capacity on its system or from its upstream pipeline; or

(c) Customer's gas supply to the Company is insufficient to meet its requirement.

3. Any Customer served under this pricing plan is ineligible to obtain sales service without executing a special contract approved by the ACC.

RATES

A monthly net bill at the following rates plus any adjustments incorporated in this pricing plan:

Customer Charge per month: $105~~0~~.00 per meter

Volume Charge: An amount equal to the applicable unit transportation rate for each therm of Customer-secured gas metered and delivered to the Customer. The unit rates shall be as set forth in the currently effective Pricing Plan Summary. The volume charge will consist of the following:

(a) An amount to fund the Company's low income rate program equal to the portion of the applicable unit sales margin for each therm included in rates as set forth in the Customer's otherwise applicable sales pricing plan for each meter.

(b) An amount to reflect lost and unaccounted for gas as determined by the differential between the gas cost on a sales basis and gas cost on a purchase basis determined in the development of the currently effective Purchased Gas Adjustment ("PGA"), Rate Rider No. RR-1. The Company at its sole option may allow lost and unaccounted for gas to be paid in kind.

(c) Any applicable imbalance charges as specified in Payment For Excess Quantities ~~Section 7~~ of this pricing plan.

(d) Any charges from upstream pipeline transporters or suppliers which have been incurred by the Company in excess of those specified in section (c) above and are deemed by the Company to be applicable to the transportation service rendered for the Customer under this pricing plan.

Reservation Charge: An annual charge to be billed in twelve (12) equal monthly installments equal to the fully allocated costs to provide the dedicated facilities necessary to serve the Customer as described more fully in Rates of this pricing plan~~Section 3.2 below~~.

Determined on the basis of a fully allocated cost study filed with and approved by the ACC in the context of a general rate case except when the request for service is non-coincident with a rate filing. In the latter case, the Reservation Charge will be computed by the Company including the following elements:

(a) Return and income taxes at the rate of return approved by the ACC in the Company's last general rate case computed on the basis of the installed costs of the dedicated facilities plus an allocation of other rate base items including, as appropriate: intangible, general and common plant investment, less any applicable accumulated depreciation and deferred taxes, an allowance for working capital and materials and supplies;

(b) Operations expense including all operating and maintenance expenses, depreciation and amortization expense, taxes other than income related to the dedicated facilities and allocated rate base;

(c) Allocated indirect expense including an appropriate portion of customer accounting, sales and information, and administrative and general expenses; and

(d) Any other allocated costs incurred either directly or indirectly to provide the requested service.

Special Surcharge: An annual charge to be computed on the basis of the twelve (12) months ending September of the prior year and billed beginning in January in equal monthly installments, computed as the sum of the following charges:

(a) The revenue requirements for any additional investments required to provide the service requested by Customer subsequent to the establishment of the currently effective Reservation Charge,

(b) Any non-recurring operating and maintenance expenses associated with the facilities dedicated to the Customer in the previous year, and

(c) Any extraordinary expenses incurred by the Company on behalf of the Customer not included in (a) or (b) above.

Minimum Charge: The minimum charge will be the sum of the Basic Customer Charge per Month, the monthly Reservation Charge and any monthly Special Surcharge.

ADMINISTRATIVE PROCEDURES

1. Processing Requests for Transportation Service: Requests for transportation hereunder shall be made by, and shall be deemed to be complete upon, the Customer providing the following information to the Company:

   (a) Gas Quantities: The Maximum Daily Quantity applicable to the receipt point and the Maximum Daily Quantity applicable to each delivery point, and estimated total quantities to be received and transported monthly over the delivery period should be stated individually in therms for each receipt point.

(b) Delivery Point(s): Point(s) of delivery by the Company to the Customer.

(c) Term of Service:
   i. Date service requested to commence;
   ii. Date service requested to terminate, if known; and
   iii. Minimum term for transportation service shall be twelve (12) months.

(d) Performance: A statement from the Customer certifying that the Customer has or will have title to the gas to be delivered to the Company for transportation and has entered into or will enter into those arrangements necessary to assure all upstream transportation will be in place prior to the commencement of service under a Transportation Agreement. The Customer's Agent, if any, must be named.

Upon receipt of all of the information specified above, the Company shall prepare and tender to the Customer for execution a Transportation Agreement. If the Customer fails to execute the Transportation Agreement within thirty (30) days of the date tendered, the Customer's request shall be deemed null and void.

2. Construction Requirements: In the event that the Customer's request for service requires the construction of additional transmission facilities not otherwise addressed in section Payment For Excess Quantities herof, ~~Section 7,~~ Extension of Lines, in the Company's current Rules and Regulations, the following additional provisions may apply:

(a) The Company may request an advance for engineering and design services based on the Company's estimate of the anticipated costs related to the requested dedicated facilities;

(b) Any advance for engineering and design will be refunded to the Customer on commencement of service;

(c) Actual engineering and design costs will be included in the dedicated facilities' costs and recovered as a part of the Reservation Charge;

(d) If the dedicated facilities are not placed in service for any reason, the Company may retain the advance;

(e) Prior to the initiation of construction of the dedicated facilities, the Company will provide an estimate of the total costs and resulting annual costs to Customer;

(f) The Company shall not be liable for any differences between actual construction costs and estimated costs;

(g) Customer may withdraw the request for service prior to initiation of construction; and

(h) The Customer may request that construction cease prior to completion. However, if the dedicated facilities are not completed or placed in service, the Customer is liable for service under the terms of this pricing plan as if the facilities had been completed, based on the total construction costs expended on behalf of the Customer.

OPERATING PROCEDURES

1. Nominating and Scheduling of Gas Receipts and Deliveries: The Customer shall be responsible for contacting the upstream pipelines to arrange for the nominating and scheduling of receipts and deliveries hereunder, provided, that the Customer may designate one (1) other party to serve as his agent for such purpose.

   The Customer or Customer's Agent shall be responsible for submitting nominations to the upstream pipeline and notifying the Company's designated representative in writing no later than one (1) hour prior to the upstream pipeline's nomination deadlines set forth in their FERC approved tariff. Such communication shall occur prior to the first of the month and within the month if there are changes to the nominations. The Customer is responsible for confirming the timely receipt of this information by the Company. The Company will confirm whether it has sufficient operational capacity to deliver all or a portion of the Customer's gas.

2. Operating Information and Estimates: Upon request of the Company, the Customer shall from time to time submit its best estimates of the daily, monthly and annual volumes of gas to be transported; including peak day requirements, together with such other operating data as the Company may require in order to schedule its operations.

3. The Company may require large Customers whose contractually allowed maximum daily quantity exceeds 10,000 therms per day, whose usage is not predictable based on weather, and whose ratio of high to low daily usage exceeds ten (10) to inform the Company within 2 hours of any initiation or termination of gas usage exceeding an hourly rate of 1,000 therms per hour.

4. Quantities: All quantities referred to under Operating Procedures ~~in Section 6~~ shall be provided as dekatherms ("DTH") (one million British Thermal Units).

5. Deliverability: The Company shall not be liable for its failure to deliver gas when such failure is due to unavailability of gas supply or interruption of third party transportation services.

6. Other Operating Procedures: The Company may require additional information or enforce other operating procedures as deemed necessary in the Company's sole judgment, in order to coordinate gas volumes and the movement of gas through the upstream pipeline system to the Company's Arizona Gas Service Area. These additional operating procedures may be enforced upon verbal notice to each Customer or the Customer's Agent with twenty-four (24) hour notice of implementation.

7. ~~(f)~~ Balancing: Balancing of thermally equivalent volumes of gas received and delivered shall be achieved as nearly as feasible on a daily basis, taking into account the Customer's right, subject to prior Company approval, to

vary receipts and deliveries across the Company Distribution System. Customer monthly imbalances are defined as the difference between the Customer's total monthly metered quantities and the Customer's total scheduled transportation quantity. Customers are provided a monthly operating window, under which the Customer's cumulative imbalances must be within plus or minus 5 percent (+/- 5%) of the month's total of daily scheduled transportation quantities, plus any Company-approved imbalance adjustment quantity, or 1,5000~~,000~~ therms, whichever is greater. Imbalances established in excess of the applicable monthly operating window will be subject to imbalance charges as specified under Payment For Excess Quantities~~in Section 7~~ of this pricing plan. However, if the Customer has an imbalance outside this limit and contacts the Company before the end of the last business day of the month, the Customer will have a "cure period" of an additional 30 days to bring its imbalance within the limits before any imbalance charges specified under Payment For Excess Quantities ~~in Section 7~~ are applied. Customer is then ineligible for a "cure period" for the following month. If in the Company's sole good faith judgment and operating conditions permit, the Company will increase the monthly operating window. Any imbalance (plus or minus) carried forward shall be considered first through the meter during the next daily or monthly period, as applicable.

1. Upon Customer request, the Company will permit electronic read-only access to the telemetering facilities described under Facility Additions ~~in Section 8~~ or provide daily meter reads each calendar day.

2. ~~(g)~~ Adjustments: Periodically, volume adjustments may be made by the upstream pipelines or the Customer's agent. Therefore, actual daily volumes invoiced will be compared with daily nominated volumes. Should adjustments to the nominated volumes become necessary, such adjustments will be applied to the nomination for the month in which the volumes were delivered to the Customer for the purposes of determining the applicability of the provisions of this pricing plan.

3. ~~(h)~~ Customer Default: The Company shall not be required to perform or continue service on behalf of any Customer that fails to comply with the terms contained in this pricing plan and the terms of the Customer's Transportation Service Agreement with the Company. The Company shall have the right to waive any one or more specific defaults by any Customer under any provision of this pricing plan or the service agreement, provided, however, that no such waiver shall operate or be construed as a waiver of any other existing or future default or defaults, whether of a like or different character.

4. ~~(i)~~ Operational Curtailment: The Company reserves the right to impose, at any time, any reasonable operating conditions upon the transportation of the Customer's gas which the Company, in its sole good faith judgment, deems necessary to maintain safe and efficient operation of its distribution system, or to make the operating terms and conditions of service hereunder compatible with those of its upstream pipelines. Under such circumstances, the following conditions shall apply:

~~(a)~~5. Any Customer that does not comply with a notice of operational curtailment shall be subject to, in addition to any otherwise applicable charges, a penalty of $10.00 per DTH for all unauthorized quantities during the curtailment period.

~~(b)~~6. The Company shall endeavor to provide notice of such operational curtailment forty-eight (48) hours prior to the commencement of the delivery of gas.

~~(c)~~7. Notwithstanding condition (b), the Company may impose an operational curtailment on the current gas day. In the event an operational curtailment is imposed on the current gas day, a minimum one-hour grace period will be allowed before penalties begin to apply.

PAYMENT FOR EXCESS QUANTITIES

1. Customers will be assessed imbalance charges if an imbalance exists in excess of the applicable monthly operating window under the conditions set forth under Balacing described as part of Operating Procedures ~~in Section 6.6~~ herein. The portion of any imbalance quantity established by a Customer in excess of the applicable monthly operating window is defined as an excess imbalance quantity. The imbalance charge will be based on the Company's short term purchases, where short term purchases are defined as gas for which the price is determined in the calendar month of use. In addition to the charges payable under this pricing plan, any monthly excess quantity shall be billed as follows:

   (a) Positive Excess Imbalance

   A positive excess imbalance exists when the Customer's scheduled transportation quantity exceeds the Customer's metered quantity by more than the applicable monthly operating window. The excess imbalance shall be retained by the Company and eliminated after the Customer's bill is credited as follows:

   (i) The price of the positive imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's least expensive short term purchases (including all upstream pipeline fuel and variable costs) for the aggregate positive imbalance volume associated with all T-2 customers. This weighted average cost per therm will be multiplied by the Customer's positive imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Positive" column in Table 1 below.

   (b) Negative Excess Imbalance

   A negative excess imbalance exists when the sum of the Customer's scheduled transportation quantity is less than the metered quantity by more than the applicable monthly operating window. The excess imbalance shall be eliminated after the Customer is billed as follows:

   (i) The price of the negative imbalance gas for the applicable month shall be calculated as the weighted average cost per therm of the Company's most expensive short term purchases (including all upstream pipeline fuel, variable and capacity costs, at a 100% load factor) for the aggregate negative imbalance volume associated with all T-2 customers. This weighted average cost per therm will be multiplied by the Customer's negative imbalance volume and the percentage associated with the Customer's "Percentage Excess Imbalance" in the "Negative" column in Table 1 below.

Table 1

Percentage Excess Imbalance	Positive	Negative
Equal to or less than 5%	100%	100%
Over 5% and less than or equal to 15%	90%	110%
Over 15% and less than or equal to 20%	80%	120%
Over 20% and less than or equal to 30%	70%	130%
Over 30%	60%	140%

2. Should the Customer cease to utilize transportation service under this pricing plan, the entire remaining imbalance shall be settled pursuant to section Payment For Excess Quantities herein. For purposes of this settlement, no operating window applies.

3. Under no circumstances shall the section Payment For Excess Quantities above be considered as giving the Customer any right to take excess quantity gas, other than as provided in Operating Procedures hereof, nor shall the section Payment For Excess Quantities or payment thereunder be considered as a substitute for any other remedy available to the Company against the offending Customer for failure to respect its obligation to stay within its authorized quantities.

FACILITY ADDITIONS

Any facilities which must be installed by the Company to serve the Customer will be constructed in accordance with the Rules of Service as approved from time to time by the ACC. Telemetering facilities on each meter will be installed at the Customer's expense. Customers requiring telemetering facilities shall provide, at the Customer's expense, a dedicated telephone line for the Company's use in communicating with the telemetering facilities and will pay any and all costs associated with that phone line. Further, any existing special surcharges or minimum bill provisions designed to recover the cost of facilities for any Customer shall remain in effect and may serve to increase maximum allowable transportation rate levels pursuant to this pricing plan.

THIRD PARTY CHARGES

The Customer shall reimburse the Company for any charges rendered or billed to the Company by its upstream pipelines and by any other upstream transporter and gas gatherers, either before or after termination of the Transportation Agreement, which the Company, in its sole good faith judgment, determines have been incurred because of the transportation of Customer's gas hereunder and should, therefore, appropriately be borne by the Customer. Such charges, whether levied in dollars or gas, may include, but shall not be limited to, standby charges or reservation fees, prepayments, applicable taxes, applicable fuel reimbursement, shrinkage, lost and unaccounted for volumes, Gas Research Institute surcharges, penalty charges, and filing fees.

The Customer will reimburse the Company for all such charges incurred by the Company as rendered, irrespective of the actual quantities of natural gas delivered to the Customer.

CONDITIONS FOR CONVERTING TO T-2 SERVICE

Any qualified Customer converting from gas sales service to service under this pricing plan is subject to the following conditions and requirements:

1. T-2 service will commence at the beginning of the first calendar month following the end of five (5) days after receipt of the customer service change request or completion of any required facilities, whichever is later.

2. Customer will be billed or credited the Customer's pro rata share of the balance in the PGA bank accumulated while served under the Company's sales pricing plan, calculated as follows:

   (a) Starting from the later of the month of initiation of gas sales service by the Customer, or the date of initiation of the current PGA bank, through the Customer's last month of sales service, the Customer's actual therm usage will be multiplied, on a month-by-month basis, by the difference between the Company's actual commodity cost per therm and the Gas Cost component of the Base Cost of Service Rate adjusted for any PGA and PGA Surcharge that may be in effect from time-to-time;

   (b) The sum of these monthly calculated values equals the Customer's charge or credit due for conversion to service under this pricing plan;

   (c) Customer charge or credit will be paid in twelve (12) equal monthly payments, including interest equal to the carrying charge rate applicable to the PGA bank at the time of conversion to service under this pricing plan.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

CONDITIONS

1. Transportation of Customer owned natural gas hereunder shall be limited to natural gas of equal or higher quality than natural gas currently available from the Company's supplier(s). All gas delivered by the Company to the Customer shall be deemed to be the same quality as that gas received by the Company for transportation.

2. With respect to the Company's capacity to deliver gas at any particular time, the curtailment priority of any Customer served under this pricing plan shall be the same as the curtailment priority established for other Customers served pursuant to the Company's pricing plan, which would otherwise be applicable to such Customer.

UniSourceEnergy SERVICES

UNS Gas, Inc.
Rider RR-1
Purchased Gas Adjustment (PGA)

APPLICABILITY

To all Company pricing plans, unless otherwise specified.

CHANGE IN RATE

UNS GAS Pricing Plans shall include a Cost of Natural Gas Charge ("CNGC") which recovers the cost of gas (natural, manufactured or in any approved form) purchased by UES on behalf of its customer. The cost of natural gas shall include all costs (demand, energy, customer-related and other) of the physical gas commodity and all costs assessed to facilitate transportation and delivery of gas on a firm basis and at an appropriate pressure (unless otherwise specified by tariff or contract) to UES, including but not limited to carrying and other costs not elsewhere recovered. Carrying cost applied to PGA bank balances will be subject to the 3-month LIBOR rate as published by the Federal Reserve, plus 1.0% to cover the additional margin that UNS Gas must pay for short-term borrowings. The CNGC consists of the Purchased Gas Adjustment ("PGA") rate and any surcharge or credit authorized by the The Arizona Corporation Commission ("ACC") for recovery or refund of previous gas costs. The CNGC shall be subject to increases or decreases by the amount of the PGA which is based on the rolling twelve (12) month average of actual purchased gas costs and sales. The ACC has banded the PGA change so that the new PGA calculated for the month cannot be more than $0.15 per therm different than the PGA rate in effect during any of the preceding twelve (12) months, unless authorized by the ACC.

BANK BALANCE

The Company shall maintain an account to assure that it will neither over nor under collect, except to the extent authorized, as a result of adjustment in rates determined under the operation of this pricing plan. Entries shall be made monthly to reflect the amounts paid to suppliers for gas as recorded in the Federal Energy Regulatory Commission series of accounts numbered 800 through 806, less the cost of such gas (adjusted volumes multiplied by the CNGC). Interest will be applied to over and under collected bank balances based on the three (3) month commercial financial paper rate for each month, contained in the Federal Reserve Statistical Release, H-15, or its successor publication.

MONTHLY INFORMATION FILINGS

Each month, the Company shall make a cost of gas information filing that shall include gas volumes and costs by supply source, supplier refunds, credits, billing adjustments, and lost and unaccounted for gas. Each filing shall include monthly sales revenues, volumes, and number of customers by class. The filing should also include historical summaries of actual twelve (12) month purchase gas volumes, costs and sales activity to support the computation of the monthly PGA rate, in the format required by Decision Nos. 61225 and 62994.

ADDITIONAL REQUIREMENTS

Notification to the ACC is required if the PGA bank balance exceeds an over collection of $10,000,000. The Company must file an application for an adjustment within forty-five (45) days of completing the monthly informational filing that illustrates the threshold has been exceeded or contact the ACC to discuss why a credit is not necessary at this time. If the PGA bank balance is under collected, the Company has the right to file an application with the ACC requesting a surcharge. The ACC, upon review, may authorize the balance to be amortized through the surcharge/credit as part of the CNGC for a specified period. Lost and unaccounted for gas recovery is limited to the lesser of the actual costs incurred or up to five percent (5.00%) of total annual throughput.

TAX CLAUSE

To the charges computed under the above rate, including any adjustments, shall be added the applicable proportionate part of any taxes or governmental impositions which are or may in the future be assessed on the basis of gross revenues of the Company.

RULES AND REGULATIONS

The standard Rules and Regulations of the Company as on file from time to time with the Arizona Corporation Commission shall apply where not inconsistent with this pricing plan.

Direct Testimony of Denise A. Smith

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS ELECTRIC, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA AND REQUEST FOR APPROVAL OF RELATED FINANCING.	DOCKET NO. G-04204A-08-____

Direct Testimony of

Denise A. Smith

on Behalf of

UNS Gas, Inc.

November 7, 2008

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I. INTRODUCTION.

Q. Please state your name and business address.

A. My name is Denise A. Smith. My business address is 4350 E. Irvington Road, Tucson, Arizona.

Q. What is your employment position?

A. I am the Director of Conservation and Renewable Programs at Tucson Electric Power Company ("TEP"), UNS Gas, Inc. ("UNS Gas" or the "Company") and UNS Electric, Inc. ("UNS Electric"), collectively referred to as the "UniSource Energy Companies".

Q. Please describe your education and professional background.

A. I graduated from Northern Arizona University ("NAU") in 1991 earning a Bachelor of Science degree in Mathematics with an extended major in Statistics, and then completed graduate work in Statistics at NAU. During my tenure at TEP, I completed a Masters of Business Administration at the University of Phoenix. After leaving NAU, I was hired by Pima Association of Governments in 1992 in the Travel Reduction Program, which reduces vehicle emissions by targeting major employers to reduce employees' travel to and from work.

I was hired in 1996 by TEP as a Demand-Side Management ("DSM") Analyst, developing, analyzing and researching new DSM and energy-related market programs. In addition, I implemented and reported progress of existing DSM programs and then transitioned them into market-transformation programs. In 1999, I moved into the Pricing and Rates Department, developing cost-of-service and revenue requirement models. In 2002, I was promoted to the Director of the Pricing and Rates Department. I then accepted the position of Director of Conservation and Renewable Programs.

During my tenure as Director of Conservation and Renewable Programs I have overseen the management of the successful TEP Guarantee Home Program. Additionally, the UniSource Energy Companies have implemented 15 new DSM programs, including the following:

<u>TEP</u>

1. a Large Commercial Facilities Efficiency Program
2. a Small Business Program
3. a Commercial New Construction Program
4. an Education and Outreach program
5. a Residential HVAC Retrofit Program
6. a Residential ENERGY STAR Lighting Program for CFLs

<u>UNS Electric</u>

1. a Commercial Facilities Efficiency Program
2. an ENERGY STAR Home Program
3. an Education and Outreach program
4. a Residential HVAC Retrofit Program
5. a Shade Tree Program
6. a Residential ENERGY STAR Lighting Program for CFLs

<u>UNS Gas</u>

1. a Commercial Facilities Efficiency Program
2. an ENERGY STAR Home Program
3. a Residential HVAC Retrofit Program

I have also directed the successful expansion of the existing Low-Income Weatherization Programs for all three companies and the existing Shade Tree Program for TEP.

Q. Please describe the low-income assistance programs offered by UNS Gas.

A. UNS Gas offers two programs designed to assist low-income customers: the Customer Assistance Residential Energy Support ("CARES") pricing plan and the Warm Spirits Program. These programs are discussed in greater detail in Gary Smith's Direct Testimony. In addition to these two assistance programs, UNS Gas also offers the Low-Income Weatherization Program ("LIW") as part of the DSM Program Portfolio. The LIW Program will be described in Section II. below.

Q. Does UNS Gas inform customers about how fluctuating gas costs will affect their monthly bills?

A. Yes. Each fall, UNS Gas mounts a communications campaign to publicize its projections for the gas costs that will be billed to customers throughout the upcoming winter. The Company disseminates this information through bill inserts, Web site updates, print and radio advertisements and a press release. These communications follow a format that was reviewed and approved by Commission Staff several years ago.

In October 2008, a UNS Gas representative visited media outlets throughout the Company's service territory to discuss the gas price projections, promote the Company's bill payment assistance options and publicize DSM programs, including the UniSource Energy Services, Inc. ("UES") Energy Advisor and the Efficient Home Heating program. These visits were intended to encourage media coverage that provides customers with even more information about how to manage their energy expenses.

Q. Please summarize your DSM marketing activities for UNS Gas customers.

A. The marketing for the UNS Gas DSM programs will include messaging intended to promote conservation while encouraging customers to take action through participation in our new programs. Various channels will be used to drive residential and commercial customers to uesaz.com or to the Company's call center to learn more details on the individual programs. Those channels include some advertising through media outlets such as local newspapers and trade magazines. The marketing strategy will be evaluated based on participation rates and modified if necessary to meet program goals.

Q. How does UNS Gas recover DSM program expenses?

A. The DSM adjustor charge is applied to customers' bills as a per therm charge. The DSM adjustor charge was initially set in Decision No. 70011 (November 27, 2007) and adjusted on June 1st of this year. UNS Gas is not asking for a change in the DSM adjustor mechanism or the DSM charge. The amount of the DSM charge will next be adjusted by operation of the DSM adjustor on June 1, 2009.

II. DEMAND-SIDE MANAGEMENT PROGRAMS.

Q. Does UNS Gas offer any DSM programs to its customers?

A. Yes. On February 27, 2008, the Company received approval to implement four DSM programs for customers in the UNS Gas service territory. These programs include the Low-Income Weatherization Program ("LIW"), the Efficient Home Heating Program ("EHH"), the Energy Smart Home Program ("ESH"), and the Commercial Energy Solutions Program ("CES").[1]

Q. Please describe the UNS Gas Low-Income Weatherization Program referenced above.

A. UNS Gas' 2008 annual budget for its LIW Program is $113,500 up from $75,000 in 2007 and in previous years. The LIW Program provides weatherization services to customers whose household incomes do not exceed 150 percent of the Federal Poverty Guidelines.

[1] The EHH, ESH and CES Programs were new programs, while the LIW Program already existed, but was enhanced.

The new LIW program was designed and implemented to meet requirements described in Federal and State Weatherization Assistance Program ("WAP") rules. UNS Gas contracts with community action agencies[2] throughout its service territory to make energy efficiency, and health and safety improvements to homes occupied by low-income residents, including the elderly and disabled. The LIW Program provides up to $2,000 per home for items such as increased insulation, duct sealing, furnace replacement, and other improvements allowed pursuant to the Arizona Department of Commerce Energy Office ("AEO") approved statewide Weatherization Assistance Program ("WAP"), at no additional cost to the customer.

Agencies use the process outlined in the WAP rules to determine which repairs are 'cost-effective' on each home and which repairs can be completed without risking the health and safety of the occupants. The resulting improvements in energy efficiency are intended to produce long-term savings to customers. If health and safety risks are identified, repairs to resolve the health and safety concerns must be made before the agency is allowed to implement many of the energy efficiency measures.

Training for agency personnel, as well as monitoring and evaluation of the work completed by weatherization agencies, is provided by AEO. UNS Gas provides energy records to AEO so AEO can determine actual energy and demand savings resulting from the LIW Program. AEO requires a minimum of 2 years and a maximum of 4 years of energy consumption records on each home to determine the actual savings from the UNS Gas LIW Program. Until AEO acquires sufficient energy records from actual UNS Gas customers,

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[2] These community action agencies include Western Arizona Council of Governments ("WACOG"), South Eastern Community Action Program ("SEACAP"), Northern Arizona Council of Governments ("NACOG") and Coconino County Community Services ("CCCS").

energy and demand savings will be estimated from energy records available to AEO from work completed in similar markets.

The LIW Program is marketed through weatherization agencies, through the UNS Gas call center, and on the uesaz.com web-site.

Q. Please describe the UNS Gas Efficient Home Heating Program.

A. UNS Gas' annual budget for its EHH Program is $300,000. The EHH Program provides rebates to customers who install qualifying, high-efficiency, natural gas furnaces in their homes to replace older, inefficient furnaces. The customer must be a customer of UNS Gas and the new furnace must be installed at a UNS Gas service address.[3]

The new furnace must have a minimum efficiency rating of 90 AFUE (Annual Fuel Utilization Efficiency) and UNS Gas strongly recommends installation of Energy Star qualified equipment. UNS Gas estimates that customers will save more than $2,500 over the estimated 15-year life of a new furnace.

The amount of the customer rebate depends on the type and size of equipment installed. The maximum customer rebate is $325 per unit. UNS Gas also provides installing contractors an incentive of $25 per unit for qualified equipment. The contractor incentive is provided to encourage HVAC contractors to "market" the program to customers (program marketing) and to off-set the added time required to prepare applications and support documentation required by UNS Gas before customer payments are made. Contractors must be licensed in the state of Arizona, must receive training regarding

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[3] Energy efficient equipment purchased, or work contracted for or performed, prior to February 27, 2008 is not eligible for an incentive.

program rules and requirements, and sign a Participation Agreement with UNS Gas. Once they satisfy all requirements, participating contractors are listed on the uesaz.com web-site. Additionally, customers can contact the Company's call center to obtain a list of these participating contractors.

Through a Request for Proposal ("RFP") process, UNS Gas selected KEMA Services, Inc. ("KEMA") as the implementation contractor to collect applications, process rebates for both customers and contractors, and to conduct inspections on a sample of installations. KEMA is one of the world's largest and most respected energy engineering and implementation consulting firms and has been in the energy-efficiency consulting business for more than 30 years. KEMA has offices throughout the United States, including Phoenix, and has conducted application collection and rebate processing for the Arizona Public Service Company ("APS") for several years. UNS Gas provides all other marketing and implementation needs through in-house personnel.

Q. Please describe the UNS Gas Energy Smart Home Program.

A. UNS Gas' annual budget for its ESH Program is $420,000. This new home construction program promotes construction of homes that meet the 2006 ENERGY STAR® performance requirements. Energy Smart Homes are specially designed to be comfortable, durable and energy efficient in Arizona's demanding climate. Energy savings are typically achieved through a combination of building envelope upgrades, high-performance windows, controlled air filtration, upgraded heating and air conditioning systems, tight air duct systems, and inspections to ensure insulation is installed to perform at maximum efficiency. Independent third-party inspections by Home Energy Rating System ("HERS") Raters ensure that the elevated standards of an Energy Smart Home are met before the Energy Smart Home label is applied to each newly constructed home. Energy Smart Homes require less energy to operate, resulting in lower costs to consumers. Performance standards of Energy Smart Homes also help to improve comfort, health and safety, and durability of the structure.

This Program is marketed through home builders, because decisions related to construction standards and energy efficiency are made long before homes are offered for sale. The builder is offered a rebate of $400 for each home meeting ENERGY STAR® performance requirements. Homes must also pass the independent inspection and testing requirements of ENERGY STAR®. The builder is required to pay the independent HERS rater to perform inspections and testing on a pre-determined sample of homes. The $400 rebate offered by UNS Gas helps to off-set the cost of the required HERS rating, inspections, and testing but does not completely cover this added cost.

Through a RFP process, UNS Gas selected the Conservation Services Group ("CSG") as the implementation contractor for this Program. CSG is a non-profit entity that has been specializing in residential energy efficiency program implementation for 25 years. They are the implementation contractor for new home construction programs in Massachusetts, Rhode Island, New York, New Jersey, Oregon, and California. CSG will provide turn-key services to UNS Gas and has recently hired local staff to help implement the UNS Gas program. The CSG team consists of a program manager and on-the-ground local account managers, backed-up by central marketing, technical, administrative, and customer service support. UNS Gas provides an in-house account manager to over-see activities of the CSG group, provide support and liaison activities to support CSG, manage budgets, and develop reports for the Company and the Arizona Corporation Commission ("Commission").

Q. Please describe the UNS Gas Commercial Energy Solutions Program.

A. UNS Gas' annual budget for its CES Program is $200,000. The CES Program provides rebates to commercial customers to encourage the installation of high-efficiency gas equipment in commercial facilities, and to help reduce the initial cost of purchasing more efficient equipment. Rebates are offered for high-efficiency water heaters, furnaces, boilers, and commercial kitchen griddles. Rebates of up to $350 are paid for installation of each qualifying high efficiency furnace, but rebates vary based on the size and efficiency of the equipment. Rebates of $200 are paid for each qualifying storage water heater, $250 for each qualifying boiler, and $300 for each qualifying griddle.[4]

To be eligible for a rebate, the account must receive gas service under one of these UNS Gas rate schedules: C20, C22, I-30, I-32, PA-40, PA-42, PA-44, IR-60 or Commercial, Industrial and Public Authority Transportation rates. The incentive cap for the CES Program is $8,000 per customer, per calendar year. School districts with grades kindergarten through 12th grade may receive up to $25,000 per calendar year.

Through a RFP process, UNS Gas selected KEMA as the implementation contractor to provide turn-key services for the CES program. As previously mentioned, KEMA is one of the world's largest and most respected energy engineering and implementation consulting firms and has been in the energy-efficiency consulting business for more than 30 years. KEMA has offices throughout the United States, including Phoenix, and has recently hired staff to support the UNS Gas CES Program. UNS Gas provides an in-house account manager to over-see activities of KEMA, provide support and liaison activities to support KEMA, manage budgets, and develop reports for the Company and the Commission.

UNS Gas will utilize many communication vehicles for marketing, outreach and information dissemination for the CES Program. At times the direct marketing approach,

[4] Energy efficient equipment purchased, or work contracted for or performed, prior to February 27, 2008 is not eligible for an incentive.

such as direct mail and telemarketing, are not effective instruments to reach commercial customers. UNS Gas will emphasize indirect and leveraged marketing methods instead, and will leverage alliances with associations to explore opportunities for free or low-cost advertising. Free press, bill inserts, websites, e-mail blasts, and community presentations to reach the target market are effective ways to get the message out with relatively minimal cost.

Q. What is the status of each of the UNS Gas DSM Programs?

A. **Low-Income Weatherization:** UNS Gas provided advance notification to the LIW agencies about the new program and the requirement to meet WAP rules once the Program was approved. Agencies agreed to begin using the new process in January 2008. As a result of the early notification to agencies, the UNS Gas LIW Program was fully implemented on February 27, 2008, the effective date of Decision No. 70180 which approved the LIW Program.

Efficient Home Heating Program: This program is the first DSM program ever offered by a gas utility to customers in this service territory. It is challenging to launch new programs from a 'cold start' in a market with little experience with these types of programs. However, UNS Gas successfully recruited 29 HVAC contractors willing to participate in the Program and publicly launched the EHH Program on June 16, 2008; the first application was received at the end of June 2008. Program participation for rebates has been greater than anticipated in a new market. From June 16th through September 30th, 2008 UNS Gas paid rebates for 41 new high-efficiency furnaces. UNS Gas anticipates even greater participation during the winter heating season.

Energy Smart Home: New Home Construction programs always require a much longer start-up period than other product-specific DSM programs. UNS Gas is partnering with its implementation partner CSG, to identify potential customers, develop processes, develop webpage content and marketing materials, and determine tracking requirements for the program. CSG recently completed the process to recruit, interview, hire, and train employees to support efforts in the UNS Gas service territory. UNS Gas is also working to develop a network of certified HERS raters to support the inspection and testing requirements of the Program. UNS Gas developed the website content and began discussions with builders in Santa Cruz County in June 2008, and with builders in Mohave, Coconino, and Yavapai Counties in September 2008.

UNS Gas recognizes that the educational process, builder recruitment, and builder and sub-contractor training will take time. The depressed housing market also means there are significantly fewer new homes under construction at this time. Even after a builder commits to use the ESH construction standards, it is not uncommon for the construction process to last 6 months before home completion. As a result, UNS Gas hopes to have a few committed projects in 2008, but anticipates there will be no completed homes until at least the 3rd quarter of 2009.

Commercial Energy Solutions: This is the first commercial DSM program for gas products ever offered by a gas utility to commercial customers in this service territory. Again, it is challenging to launch new programs from a 'cold start' in a market with little experience with these types of programs.

UNS Gas and its implementation partner KEMA have worked together to identify potential customers, develop processes, design webpage content, identify tracking requirements, develop application forms, and develop policies and procedures. KEMA has completed the process to recruit, interview, hire, and train new employees to implement the Program within the UNS Gas service territory. UNS Gas launched the website content, completed application forms, completed the program policies and procedures, and arranged for call-center support to handle inquires by June 16, 2008, and the complete infrastructure to support this Program was in place by August 2008.

In addition to web-site information, UNS Gas trained employees to recruit customers for the program during presentations and community events, and placed an ad in a Chamber of Commerce magazine. UNS Gas met with contractors, distributors and trade allies to announce the Program. Distributors are important trade allies to this process to make sure qualifying equipment is available for contractors in the UNS Gas service territory. Contractors are important as they are commonly the first to know that a customer is looking for new gas equipment.

UNS Gas received its first application from a commercial customer for a rebate in October 2008. UNS Gas understands that rebate requests for qualifying furnaces during the summer months may not be common and anticipates more activity during the winter heating season. During distributor and contractor meetings it was determined that qualifying water heaters and boiler were not readily available to contractors. UNS Gas is working with distributors to investigate avenues to ensure qualifying equipment is available to commercial customers.

Q. Is UNS Gas reviewing new DSM programs for future implementation?

A. While electric utilities have a number of possibilities for developing programs that reduce demand and energy consumption, gas utilities are limited due to the smaller number of gas products installed for residential and commercial end use. UNS Gas is considering some possible program additions for future implementation, however it is uncertain at this time whether these programs will meet required cost-effectiveness tests.

These potential program additions include the following:

1) **<u>Envelope and duct leakage improvements</u>:** UNS Gas is one of seven electric and gas utilities participating in a state-wide effort to study the effects of envelope and duct leakage improvements in existing homes. This study is being funded by a DOE grant awarded to the AEO in September 2008. Results of this study will be used to determine the cost, benefit, and process required to successfully launch an existing home program. Results will not be available for at least 18 months. At that time, UNS Gas may consider an envelope improvement program for existing homes.

2) **<u>Rebates for high-efficiency storage water heaters</u>:** UNS Gas will consider providing rebates for high-efficiency storage water heaters to residential customers. A program will only be recommended if it is determined to meet the societal cost test required for program approval. To date residential water heating programs traditionally have struggled to meet the cost effectiveness test.

3) **<u>Expanding measures for the Commercial Energy Solutions Program</u>:** UNS Gas will continually evaluate the feasibility of expanding measures within its Commercial Energy Solutions Program. One consideration is to provide rebates for duct-sealing in commercial buildings. As new gas technologies become available, UNS Gas will perform analysis to determine cost effectiveness. A measure will only be recommended if it is determined to meet the societal cost test required for program approval.

Q. Does this complete your Direct Testimony regarding DSM activities for UNS Gas?

A. Yes, this completes my testimony.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
MIKE GLEASON - CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS GAS, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. G-04204A-08-

UNS GAS, INC.

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November 7, 2008

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UNS Gas, Inc.
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F-1	Projected Income Statements - Present and Proposed Rates	Income statements for the test year and two projected years, at present and proposed rates (test year also presented)
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UNS Gas, Inc.
Index to Schedules
Test Year Ended June 30, 2008

Schedule	Title of Schedule	Description
	Cost of Service Analyses	
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G-4	Expense Allocation to Classes of Service	Allocation of operating expenses to classes of service
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	Effect of Proposed Rate Schedules	
H-1	Summary of Revenues by Customer Classification - Adjusted Present and Proposed Rates	Revenues by customer classification at present and proposed rates
H-2	Comparisons of Revenues by Rate Schedules - Present and Proposed Rates	Revenues by detailed class of service at present and proposed rates
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H-5	Bill Count	Billing activity by block for the summer and winter periods for residential, commercial and industrial rate groups.

Schedule A

UNS Gas, Inc.
Computation of Increase in Gross Revenue Requirements
Test Year Ended June 30, 2008

		ACC Jurisdiction						
Line No.	Description	Original Cost		RCND		Fair Value		Line No.
1	Adjusted Rate Base	$182,293,105	(a)	$329,266,770	(a)	$255,779,938	(e)	1
2	Adjusted Operating Income	$11,600,004	(b)	$11,600,004	(b)	$11,600,004		2
3	Current Rate of Return (2/1)	6.36%		3.52%		4.54%		3
4	Required Operating Income	$17,393,036		$17,393,036		$17,393,036		4
5	Weighted Average Cost of Capital	8.75%	(c)	8.75%		8.75%		5
6	Fair Value Adjustment	0.79%		-3.47%		-1.95%		6
7	Required Rate of Return	9.54%		5.28%		6.80%	(e)	7
8	Operating Income Deficiency	$5,793,032		$5,793,032		$5,793,032		8
9	Gross Revenue Conversion Factor	1.6366	(d)	1.6366	(d)	1.6366	(d)	9
10	Increase in Gross Revenue Requirement	$9,480,876		$9,480,876		$9,480,876		10

	Customer Classification	Projected Revenue Increase (f)	% Dollar Increase (f)	
11	Residential Service	$6,673,621	18.34%	11
12	Commercial Gas Service	1,874,298	19.09%	12
13	Industrial Gas Service	48,123	18.86%	13
14	Public Authority Gas Service	338,437	19.02%	14
15	Special Gas Light Service	12,812	19.14%	15
16	Irrigation Service	6,437	19.01%	16
17	Transportation Customers	527,149	18.57%	17
18	Total	$9,480,876	18.53%	18

Supporting Schedules
(a) B-1
(b) C-1
(c) D-1
(d) C-3
(e) Rev Req Model
(f) H-1

UNS Gas, Inc.
Summary Results of Operations
Prior Years Ended December 31, 2006 and 2007, Test Year Ended June 30, 2008
and Projected Year Ended June 30, 2009
(Thousands of Dollars)

Line No.	Description	Prior Years Ended December 31, 2006 (a)	Prior Years Ended December 31, 2007 (a)	Test Year Ended June 30, 2008 Actuals (b)	Test Year Ended June 30, 2008 Adjusted (b)	Projected Year Ended June 30, 2009 Present Rates (c)	Projected Year Ended June 30, 2009 Proposed Rates (c)	Line No.
1	Operating Revenues	$162,017	$150,953	$163,396	$52,903	$193,031	$202,907	1
2	Operating Expenses (includes income taxes)	151,301	141,057	149,949 (2)	41,303	180,324	184,266	2
3	Operating Income	10,716	9,896	13,447	11,600	12,707	18,641	3
4	Other Income and Deductions	386	903	379	379	361	438	4
5	Income Before Interest Expense	11,102	10,798	13,826	11,979	13,068	19,079	5
6	Interest Expense	6,714	6,805	6,652	6,652	6,353	6,345	6
7	Net Income	$4,388	$3,993	$7,174	$5,327	$6,715	$12,734	7
8	Earnings Per Average Common Share	N/A (1)	N/A	N/A	N/A	N/A	N/A	8
9	Dividends Per Common Share	N/A (1)	N/A	N/A	N/A	N/A	N/A	9
10	Payout Ratio	0% (1)	0%	0%	0%	0%	0%	10
11	Return on Year-End Invested Capital	6.06%	5.76%	6.97%	6.09%	6.36%	9.02%	11
12	Return on Average Invested Capital	6.14%	5.83%	7.18%	6.24%	6.47%	9.31%	12
13	Return on Year-End Common Equity	5.21%	4.52%	7.23%	5.47%	6.34%	11.37%	13
14	Return on Average Common Equity	5.35%	4.63%	7.68%	5.76%	6.54%	12.06%	14
15	Times Total Interest Earned - Before Income Taxes	2.04	1.89	2.74	2.34	2.75	4.32	15
16	Times Total Interest Earned - After Income Taxes	1.65	1.59	2.08	1.80	2.06	3.01	16

(1) UNS Gas, Inc. is a subsidiary of UniSource Energy Corporation and has no publicly traded stock; thus, such information is not meaningful.
(2) Includes reclassification of $137,200 for Customer Deposit Interest Expense From Other Interest Expense to Other O&M Expense.

Supporting Schedules
(a) E-2
(b) C-1
(c) F-1

UNS Gas, Inc.
Summary of Capital Structure
Prior Years Ended December 31, 2006 and 2007, Test Year Ended June 30, 2008
and Projected Year Ended June 30, 2009
(Thousands of Dollars)

		Prior Years Ended December 31,		Test Year Ended June 30, 2008	Projected Year June 30, 2009		
Line No.	Description	2006 (a)	2007 (a)	Actuals (b)	Present Rates (b)	Proposed Rates (b)	Line No.
	Capitalization						
1	Short-Term Debt	$0	$0	$0	$0	$0	1
2	Long-Term Debt (Net of Issuance Costs)	$98,994	$99,181	$99,265	99,430	99,430	2
	Total Debt	98,994	99,181	99,265	99,430	99,430	
3	Common Stock Equity	84,154	88,265	99,242	105,959	111,974	3
4	Total Capital	$183,148	$187,446	$198,507	$205,389	$211,404	4
	Capitalization Ratios						
5	Short-Term Debt	0.00%	0.00%	0.00%	0.00%	0.00%	5
6	Long-Term Debt (Net of Issuance Costs)	54.05%	52.91%	50.01%	48.41%	47.03%	6
7	Common Stock Equity	45.95%	47.09%	49.99%	51.59%	52.97%	7
8	Total Capital	100.00%	100.00%	100.00%	100.00%	100.00%	8
9	Weighted Cost of Short-Term Debt	N/A	N/A	N/A	0.00%	N/A	9
10	Weighted Cost of Long-Term Debt	3.51%	3.43%	3.25%	3.14%	3.05%	10
11	Weighted Cost of Common Equity	5.05%	5.18%	5.50%	5.67%	5.83%	11

Supporting Schedules
(a) E-1
(b) D-1

UNS Gas, Inc.
Construction Expenditures and Gross Utility Plant in Service
Prior Years Ended December 31, 2006 and 2007, Test Year Ended June 30, 2008
and Projected Years Ended December 31, 2009, 2010 and 2011
(Thousands of Dollars)

Line No.	Year		Construction Expenditures	Net Plant Placed in Service (1)	Gross Utility Plant in Service (1)	Line No.
1	Prior Year Ended December 31, 2006	(a)	$22,976	$183,933	$265,598	1
2	Prior Year Ended December 31, 2007	(a)	$22,083	$195,016	$278,659	2
3	Test Year Ended June 30, 2008	(a)	$20,012	$203,242	$290,369	3
4	Projected Year Ended December 31, 2009	(b)	$23,247	$229,951	$332,375	4
5	Projected Year Ended December 31, 2010	(b)	$20,147	$240,241	$353,642	5
6	Projected Year Ended December 31, 2011	(b)	$22,451	$251,537	$376,537	6

(1) Net Plant Placed in Service and Gross Utility Plant in Service exclude CWIP and Plant Held For Future Use.

Supporting Schedules
(a) E-1 & E-3
(b) F-3

UNS Gas, Inc.
Summary Changes in Financial Position
Prior Years Ended December 31, 2006 and 2007, Test Year Ended June 30, 2008
and Projected Year Ended June 30, 2009
(Thousands of Dollars)

		Prior Years Ended December 31,		Test Year Ended June 30,	Projected Year Ended June 30, 2009		
Line No.	Description	2006 (a)	2007 (a)	2008 (a)	Present Rates (b)	Proposed Rates (b)	Line No.
1	Net Cash Flows from Operating Activities	$31,506	$28,368	$17,208	$16,457	$24,175	1
2	Net Cash Flows From Investing Activities	(22,976)	(22,083)	(20,012)	(25,650)	(25,650)	2
3	Net Cash Flows from Financing Activities	(3,890)	(5,673)	(1,543)	(1,109)	(1,110)	3
4	Net Increase (Decrease) in Cash	$4,640	$612	($4,347)	($10,302)	($2,585)	4

Supporting Schedules
(a) E-3
(b) F-2

Schedule B

UNS Gas, Inc.
Summary of Original Cost and RCND Rate Base
Test Year Ended June 30, 2008

Line No.	Description	Total: Adjusted Original Cost Rate Base (a)	Total: Adjusted RCND Rate Base (b)	ACC Jurisdiction: Adjusted Original Cost Rate Base (a)	ACC Jurisdiction: Adjusted RCND Rate Base (b)	Line No.
1	Gross Utility Plant in Service	$318,227,624	$561,025,858	$318,227,624	$561,025,858	1
2	Less: Accumulated Depreciation	87,543,544	152,278,962	87,543,544	152,278,962	2
3	Net Utility Plant in Service	230,684,080	408,746,896	230,684,080	408,746,896	3
4	Southern Union Acquisition Premium	0	0	0	0	4
5	Less: Accum. Amort. - So. Union Acq. Premium	0	3,553	0	3,553	5
6	Net Southern Union Acquisition Premium	0	(3,552)	0	(3,552)	6
7	Citizens Acquisition Discount	(30,709,737)	(55,126,579)	(30,709,737)	(55,126,579)	7
8	Less: Accum. Amort. - Citizens Acq. Discount	(3,935,647)	(6,658,438)	(3,935,647)	(6,658,438)	8
9	Net Citizens Acquisition Discount	(26,774,091)	(48,468,141)	(26,774,091)	(48,468,141)	9
10	Total Net Utility Plant	203,909,989	360,275,203	203,909,989	360,275,203	10
11	Customer Advances for Construction	(11,235,876)	(12,759,773)	(11,235,876)	(12,759,773)	11
12	Customer Deposits	(2,609,271)	(2,609,271)	(2,609,271)	(2,609,271)	12
13	Accumulated Deferred Income Taxes	(10,606,875)	(18,474,527)	(10,606,875)	(18,474,527)	13
14	Total Deductions	(24,452,022)	(33,843,571)	(24,452,022)	(33,843,571)	14
15	Allowance for Working Capital	2,364,921	2,364,921	2,364,921	2,364,921	15
16	Regulatory Assets	492,590	492,590	492,590	492,590	16
17	Regulatory Liabilities	(22,372)	(22,372)	(22,372)	(22,372)	17
18	Total Rate Base	$182,293,105	$329,266,770	$182,293,105	$329,266,770	18

Supporting Schedules
(a) B-2
(b) B-3

Recap Schedules
A-1

UNS Gas, Inc.
Pro Forma Adjustments to Original Cost Rate Base
Test Year Ended June 30, 2008

Line No.	Description		Actual at End of Test Period	Total Adjustments (a)	Adjusted at End of Test Period	ACC Jurisdiction	Line No.
1	Gross Utility Plant in Service		$340,154,214	($21,926,590)	$318,227,624	$318,227,624	1
2	Less: Accumulated Depreciation		93,765,398	(6,221,854)	87,543,544	87,543,544	2
3	Net Utility Plant in Service		246,388,816	(15,704,736)	230,684,080	230,684,080	3
4	Southern Union Acquisition Premium		18,271,349	(18,271,349)	0	0	4
5	Less: Accum. Amort. - So. Union Acq. Premium		2,125,967	(2,125,967)	0	0	5
6	Net Southern Union Acquisition Premium		16,145,381	(16,145,381)	0	0	6
7	Citizens Acquisition Discount		(68,391,292)	37,681,555	(30,709,737)	(30,709,737)	7
8	Less: Accum. Amort. - Citizens Acq. Discount		(8,764,777)	4,829,130	(3,935,647)	(3,935,647)	8
9	Net Citizens Acquisition Discount		(59,626,516)	32,852,425	(26,774,091)	(26,774,091)	9
10	Total Net Utility Plant		202,907,681	1,002,308	203,909,989	203,909,989	10
11	Customer Advances for Construction		(11,825,028)	589,152	(11,235,876)	(11,235,876)	11
12	Customer Deposits		(2,609,271)	0	(2,609,271)	(2,609,271)	12
13	Accumulated Deferred Income Taxes		(15,056,983)	4,450,108	(10,606,875)	(10,606,875)	13
14	Total Deductions		(29,491,282)	5,039,260	(24,452,022)	(24,452,022)	14
15	Working Capital	(b)	2,266,954	97,967	2,364,921	2,364,921	15
16	Regulatory Assets		492,590	0	492,590	492,590	16
17	Regulatory Liabilities		(22,372)	0	(22,372)	(22,372)	17
18	Total Original Cost Rate Base		$176,153,570	$6,139,535	$182,293,105	$182,293,105	18

Supporting Schedules
(a) B-2 (P2-3)
(b) B-5

Recap Schedules
B-1

UNS Gas, Inc.
Pro Forma Adjustments to Original Cost Rate Base
Test Year Ended June 30, 2008

Line No.	Description	Pro Forma Adjustments: Acquisition Adjustment	So. Union Acq. Premium	Griffith Power Plant	Build-Out Plant	Golden Valley Plant	Post-Test Year Non-Revenue Plant in Service	Total Page Adjustments	Line No.
1	Gross Utility Plant in Service	$0	$0	($6,184,403)	($12,841,090)	($4,428,685)	$1,527,588	($21,926,590)	1
2	Less: Accumulated Depreciation	0	0	(1,241,803)	(4,944,462)	(35,589)	0	(6,221,854)	2
3	Net Utility Plant in Service	0	0	(4,942,600)	(7,896,628)	(4,393,096)	1,527,588	(15,704,736)	3
4	Southern Union Acquisition Premium	0	(18,271,349)	0	0	0	0	(18,271,349)	4
5	Less: Accum. Amort. - So. Union Acq. Premium	0	(2,125,967)	0	0	0	0	(2,125,967)	5
6	Net Southern Union Acquisition Premium	0	(16,145,381)	0	0	0	0	(16,145,381)	6
7	Citizens Acquisition Discount	37,681,555	0	0	0	0	0	37,681,555	7
8	Less: Accum. Amort. - Citizens Acq. Discount	4,829,130	0	0	0	0	0	4,829,130	8
9	Net Citizens Acquisition Discount	32,852,425	0	0	0	0	0	32,852,425	9
10	Total Net Utility Plant	32,852,425	(16,145,381)	(4,942,600)	(7,896,628)	(4,393,096)	1,527,588	1,002,308	10
11	Customer Advances for Construction	0	0	0	0	0	0	0	11
12	Customer Deposits	0	0	0	0	0	0	0	12
13	Accumulated Deferred Income Taxes	0	0	0	0	0	0	0	13
14	Total Deductions	0	0	0	0	0	0	0	14
15	Allowance for Working Capital	0	0	0	0	0	0	0	15
16	Regulatory Assets	0	0	0	0	0	0	0	16
17	Regulatory Liabilities	0	0	0	0	0	0	0	17
18	Total Original Cost Rate Base	$32,852,425	($16,145,381)	($4,942,600)	($7,896,628)	($4,393,096)	$1,527,588	$1,002,308	18

Supporting Schedules
N/A

Recap Schedules
B-1

UNS Gas, Inc.
Pro Forma Adjustments to Original Cost Rate Base
Test Year Ended June 30, 2008

Line No.	Description	Pro Forma Adjustments: Customer Advances Adjustment	Accumulated Deferred Income Taxes	Working Capital			Total Page Adjustments	Total Original Cost Adjustments	Line No.
			(a)	(a)					
1	Gross Utility Plant in Service	$0	$0	$0	$0	$0	$0	($21,926,590)	1
2	Less: Accumulated Depreciation	0	0	0	0	0	0	(6,221,854)	2
3	Net Utility Plant in Service	0	0	0	0	0	0	(15,704,736)	3
4	Southern Union Acquisition Premium	0	0	0	0	0	0	(18,271,349)	4
5	Less: Accum. Amort. - So. Union Acq. Premium	0	0	0	0	0	0	(2,125,967)	5
6	Net Southern Union Acquisition Premium	0	0	0	0	0	0	(16,145,381)	6
7	Citizens Acquisition Discount	0	0	0	0	0	0	37,681,555	7
8	Less: Accum. Amort. - Citizens Acq. Discount	0	0	0	0	0	0	4,829,130	8
9	Net Citizens Acquisition Discount	0	0	0	0	0	0	32,852,425	9
10	Total Net Utility Plant	0	0	0	0	0	0	1,002,308	10
11	Customer Advances for Construction	589,152	0	0	0	0	589,152	589,152	11
12	Customer Deposits	0	0	0	0	0	0	0	12
13	Accumulated Deferred Income Taxes	0	4,450,108	0	0	0	4,450,108	4,450,108	13
14	Total Deductions	589,152	4,450,108	0	0	0	5,039,260	5,039,260	14
15	Allowance for Working Capital	0	0	97,967	0	0	97,967	97,967	15
16	Regulatory Assets	0	0	0	0	0	0	0	16
17	Regulatory Liabilities	0	0	0	0	0	0	0	17
18	Total Original Cost Rate Base	$589,152	$4,450,108	$97,967	$0	$0	$5,137,227	$6,139,535	18

Supporting Schedules
(a) B-5

Recap Schedules
B-1

UNS Gas, Inc.
Pro Forma Adjustments to RCND Rate Base
Test Year Ended June 30, 2008

Line No.	Description	Actual at End of Test Period (a), (b)	Total Adjustments (c)	Adjusted at End of Test Period	ACC Jurisdiction	Line No.
1	Gross Utility Plant in Service	$599,893,441	($38,867,583)	$561,025,858	$561,025,858	1
2	Less: Accumulated Depreciation	163,532,158	(11,253,197)	152,278,962	152,278,962	2
3	Net Utility Plant in Service	436,361,283	(27,614,387)	408,746,896	408,746,896	3
4	Southern Union Acquisition Premium	33,786,916	(33,786,916)	0	0	4
5	Less: Accum. Amort. - So. Union Acq. Premium	3,861,229	(3,857,676)	3,553	3,553	5
6	Net Southern Union Acquisition Premium	29,925,688	(29,929,240)	(3,552)	(3,552)	6
7	Citizens Acquisition Discount	(122,768,160)	67,641,581	(55,126,579)	(55,126,579)	7
8	Less: Accum. Amort. - Citizens Acq. Discount	(14,824,245)	8,165,807	(6,658,438)	(6,658,438)	8
9	Net Citizens Acquisition Discount	(107,943,915)	59,475,774	(48,468,141)	(48,468,141)	9
10	Total Net Utility Plant	358,343,056	1,932,147	360,275,203	360,275,203	10
11	Customer Advances for Construction	(13,428,830)	669,057	(12,759,773)	(12,759,773)	11
12	Customer Deposits	(2,609,271)	0	(2,609,271)	(2,609,271)	12
13	Accumulated Deferred Income Taxes	(26,225,504)	7,750,977	(18,474,527)	(18,474,527)	13
14	Total Deductions	(42,263,605)	8,420,034	(33,843,571)	(33,843,571)	14
15	Allowance for Working Capital	2,266,954	97,967	2,364,921	2,364,921	15
16	Regulatory Assets	492,590	0	492,590	492,590	16
17	Regulatory Liabilities	(22,372)	0	(22,372)	(22,372)	17
18	Total RCND Rate Base	$318,816,622	$10,450,149	$329,266,770	$329,266,770	18

Supporting Schedules
(a) B-4
(b) B-2
(c) B-3 (P2-3)

Recap Schedules
B-1

UNS Gas, Inc.
Pro Forma Adjustments to RCND Rate Base
Test Year Ended June 30, 2008

Line No.	Description	Pro Forma Adjustments: Acquisition Adjustment RCN	So. Union Acq. Premium RCN	Griffith Power Plant RCN	Build-Out Plant RCN	Golden Valley Plant RCN	Post-Test Year Non-Revenue Plant in Service RCN	Total Page Adjustments	Line No.
1	Gross Utility Plant in Service	$0	$0	($9,095,229)	($24,234,984)	($8,051,797)	$2,514,427	($38,867,583)	1
2	Less: Accumulated Depreciation	0	0	(1,824,705)	(9,364,311)	(64,181)	0	(11,253,197)	2
3	Net Utility Plant in Service	0	0	(7,270,524)	(14,870,673)	(7,987,617)	2,514,427	(27,614,387)	3
4	Southern Union Acquisition Premium	0	(33,786,916)	0	0	0	0	(33,786,916)	4
5	Less: Accum. Amort. - So. Union Acq. Premium	0	(3,857,676)	0	0	0	0	(3,857,676)	5
6	Net Southern Union Acquisition Premium	0	(29,929,241)	0	0	0	0	(29,929,240)	6
7	Citizens Acquisition Discount	67,641,581	0	0	0	0	0	67,641,581	7
8	Less: Accum. Amort. - Citizens Acq. Discount	8,165,807	0	0	0	0	0	8,165,807	8
9	Net Citizens Acquisition Discount	59,475,774	0	0	0	0	0	59,475,774	9
10	Total Net Utility Plant	59,475,774	(29,929,241)	(7,270,524)	(14,870,673)	(7,987,617)	2,514,427	1,932,147	10
11	Customer Advances for Construction	0	0	0	0	0	0	0	11
12	Customer Deposits	0	0	0	0	0	0	0	12
13	Accumulated Deferred Income Taxes	0	0	0	0	0	0	0	13
14	Total Deductions	0	0	0	0	0	0	0	14
15	Allowance for Working Capital	0	0	0	0	0	0	0	15
16	Regulatory Assets	0	0	0	0	0	0	0	16
17	Regulatory Liabilities	0	0	0	0	0	0	0	17
18	Total RCND Rate Base	$59,475,774	($29,929,241)	($7,270,524)	($14,870,673)	($7,987,617)	$2,514,427	$1,932,147	18

Supporting Schedules
N/A

Recap Schedules
B-1

UNS Gas, Inc.
Pro Forma Adjustments to RCND Rate Base
Test Year Ended June 30, 2008

Line No.	Description	Pro Forma Adjustments: Customer Advances Adjustment RCN	Accumulated Deferred Income Taxes RCN	Working Capital RCN			Total Page Adjustments	Total Original Cost Adjustments	Line No.
			(a)	(a)					
1	Gross Utility Plant in Service	$0	$0	$0	$0	$0	$0	($38,867,583)	1
2	Less: Accumulated Depreciation	0	0	0	0	0	0	(11,253,197)	2
3	Net Utility Plant in Service	0	0	0	0	0	0	(27,614,387)	3
4	Southern Union Acquisition Premium	0	0	0	0	0	0	(33,786,916)	4
5	Less: Accum. Amort. - So. Union Acq. Premium	0	0	0	0	0	0	(3,857,676)	5
6	Net Southern Union Acquisition Premium	0	0	0	0	0	0	(29,929,240)	6
7	Citizens Acquisition Discount	0	0	0	0	0	0	67,641,581	7
8	Less: Accum. Amort. - Citizens Acq. Discount	0	0	0	0	0	0	8,165,807	8
9	Net Citizens Acquisition Discount	0	0	0	0	0	0	59,475,774	9
10	Total Net Utility Plant	0	0	0	0	0	0	1,932,147	10
11	Customer Advances for Construction	669,057	0	0	0	0	669,057	669,057	11
12	Customer Deposits	0	0	0	0	0	0	0	12
13	Accumulated Deferred Income Taxes	0	7,750,977	0	0	0	7,750,977	7,750,977	13
14	Total Deductions	669,057	7,750,977	0	0	0	8,420,034	8,420,034	14
15	Allowance for Working Capital	0	0	97,967	0	0	97,967	97,967	15
16	Regulatory Assets	0	0	0	0	0	0	0	16
17	Regulatory Liabilities	0	0	0	0	0	0	0	17
18	Total RCND Rate Base	$669,057	$7,750,977	$97,967	$0	$0	$8,518,001	$10,450,149	18

Supporting Schedules
(a) B-5

Recap Schedules
B-1

UNS Gas, Inc.
RCND By Major Plant Accounts
Test Year Ended June 30, 2008

Line No.	Function	Plant Account	Description	RCN	Percent	RCND	Line No.
1	INTANGIBLE	302	Franchises & Consents	362,992	49.0%	177,845	1
2		303	Misc. Intangible Plant	916,294	62.7%	574,718	2
3			Total Intangible Plant	1,279,286		752,562	3
4	TRANSMISSION	365	Land & Rights	102,606	81.4%	83,569	4
5		366	Structures & Improvements	21,228	72.8%	15,447	5
6		367	Mains	33,822,292	78.6%	26,574,998	6
7		369	Measuring and Req. Equipment	5,024,900	74.1%	3,722,508	7
8		371	Other Equipment	275,060	50.0%	137,568	8
9			Total Transmission Plant	39,246,087		30,534,089	9
10	DISTRIBUTION	374	Land & Rights	257,989	86.3%	222,637	10
11		375	Structures & Improvements	23,864	28.7%	6,842	11
12		376	Mains	334,472,111	75.5%	252,537,944	12
13		378	Meas. And Req. Equipment - General	4,253,911	70.8%	3,012,180	13
14		379	Meas. And Req. Equipment - City Gate	5,250,952	85.5%	4,488,257	14
15		380	Services	141,077,195	68.9%	97,153,552	15
16		381	Meters	25,877,829	55.3%	14,301,327	16
17		382	Meter Installation	13,688,983	78.8%	10,792,880	17
18		383	Regulators	3,793,840	63.7%	2,415,339	18
19		384	Regulator Installations	1,832,533	85.9%	1,573,774	19
20		385	Industiral Measuring Equipment	3,341,054	53.9%	1,799,787	20
21		387	Other Equipment	1,877,231	51.0%	957,603	21
22			Total Distribution Plant	535,747,492		389,262,122	22
23	GENERAL	389	Land & Rights	394,121	96.6%	380,646	23
24		390	Structures & Improvements	7,005,670	94.6%	6,630,354	24
25		391	Office Furniture & Equipment	2,353,750	29.9%	703,788	25
26		392	Transportation Equipment	7,482,913	51.9%	3,882,007	26
27		393	Stores Equipment	245,842	82.3%	202,242	27
28		394	Tools, Shop, & Garage Equipment	2,815,683	68.2%	1,919,162	28
29		395	Laboratory Equipment	592,998	44.9%	266,295	29
30		396	Power Operated Equipment	1,337,097	80.8%	1,080,818	30
31		397	Communication Equipment	1,040,704	49.7%	517,507	31
32		398	Misc. Equipment	351,798	65.3%	229,692	32
33			Total General Plant	23,620,577		15,812,509	33
34			Total Plant	$599,893,441	72.7%	$436,361,283	34

Supporting Schedules
N/A

Recap Schedules
B-3

UNS Gas, Inc.
RCND By Major Plant Accounts
Test Year Ended June 30, 2008

Line No.	Function	Plant Account	Description	RCN	Percent	RCND	Line No.
			Southern Union Acquisition Premium				
1	INTANGIBLE	302	Franchises & Consents	20,652	80.5%	16,616	1
2		303	Misc. Intangible Plant	179,532	79.0%	141,822	2
3			Total Intangible Plant	200,184		158,438	3
4	DISTRIBUTION	376	Mains	23,539,148	89.5%	21,066,683	4
5		378	Meas. And Req. Equipment - General	345,955	85.0%	294,019	5
6		379	Meas. And Req. Equipment - City Gate	369,718	88.2%	326,073	6
7		380	Services	5,969,873	85.8%	5,124,209	7
8		381	Meters	1,589,532	89.9%	1,428,530	8
9		382	Meter Installation	9,676	88.1%	8,521	9
10		383	Regulators	(144,335)	86.9%	(125,479)	10
11		385	Industiral Measuring Equipment	629,352	87.3%	549,488	11
12		387	Other Equipment	334,155	85.0%	284,080	12
13			Total Distribution Plant	32,643,074		28,956,123	13
14	GENERAL	389	Land & Rights	133,238	97.3%	129,685	14
15		390	Structures & Improvements	229,032	85.7%	196,273	15
16		391	Office Furniture & Equipment	23,776	75.2%	17,879	16
17		393	Stores Equipment	31,982	86.5%	27,679	17
18		394	Tools, Shop, & Garage Equipment	540,816	83.1%	449,443	18
19		396	Power Operated Equipment	(14,263)	63.6%	(9,066)	19
20		398	Misc. Equipment	(923)	83.0%	(766)	20
21			Total General Plant	943,659		811,127	21
22			Total Plant	$33,786,916	88.6%	$29,925,688	22

Supporting Schedules
N/A

Recap Schedules
B-3

UNS Gas, Inc.
RCND By Major Plant Accounts
Test Year Ended June 30, 2008

Line No.	Function	Plant Account	Description	RCN	Percent	RCND	Line No.
			Citizens Acquisition Discount				
1	INTANGIBLE	302	Franchises & Consents	(81,207)	80.7%	(65,549)	1
2		303	Misc. Intangible Plant	(94,856)	79.6%	(75,529)	2
3			Total Intangible Plant	(176,063)		(141,079)	3
4	TRANSMISSION	365	Land & Rights	(34,352)	99.2%	(34,075)	4
5		366	Structures & Improvements	(6,598)	74.4%	(4,909)	5
6		367	Mains	(5,417,121)	93.6%	(5,069,118)	6
7		369	Measuring and Req. Equipment	(1,328,941)	91.5%	(1,216,639)	7
8		371	Other Equipment	(80,708)	78.4%	(63,284)	8
9			Total Transmission Plant	(6,867,720)		(6,388,026)	9
10	DISTRIBUTION	374	Land & Rights	(86,374)	99.5%	(85,968)	10
11		375	Structures & Improvements	(1,199)	84.4%	(1,012)	11
12		376	Mains	(77,055,149)	89.6%	(69,026,852)	12
13		378	Meas. And Req. Equipment - General	(713,890)	85.1%	(607,695)	13
14		379	Meas. And Req. Equipment - City Gate	(739,235)	88.2%	(652,318)	14
15		380	Services	(24,209,482)	85.9%	(20,790,901)	15
16		381	Meters	(4,855,395)	90.0%	(4,368,146)	16
17		382	Meter Installation	(2,629,951)	88.2%	(2,318,776)	17
18		383	Regulators	(523,021)	87.2%	(455,823)	18
19		384	Regulator Installations	(248,195)	86.2%	(213,861)	19
20		385	Industiral Measuring Equipment	(547,774)	87.3%	(478,111)	20
21		387	Other Equipment	(534,877)	84.8%	(453,770)	21
22			Total Distribution Plant	(112,144,541)		(99,453,233)	22
23	GENERAL	389	Land & Rights	(109,570)	97.5%	(106,779)	23
24		390	Structures & Improvements	(361,725)	81.0%	(293,006)	24
25		391	Office Furniture & Equipment	(1,618,817)	39.0%	(630,749)	25
26		392	Transportation Equipment	(200,931)	-18.8%	37,828	26
27		393	Stores Equipment	(48,416)	85.3%	(41,318)	27
28		394	Tools, Shop, & Garage Equipment	(639,517)	82.5%	(527,566)	28
29		395	Laboratory Equipment	(173,418)	53.2%	(92,225)	29
30		396	Power Operated Equipment	(13,568)	73.0%	(9,900)	30
31		397	Communication Equipment	(330,294)	69.8%	(230,682)	31
32		398	Misc. Equipment	(83,579)	80.4%	(67,179)	32
33			Total General Plant	(3,579,836)		(1,961,577)	33
34			Total Plant	($122,768,160)	87.9%	($107,943,915)	34

Supporting Schedules
N/A

Recap Schedules
B-3

UNS Gas, Inc.
Computation of Working Capital
Test Year Ended June 30, 2008

		Total		Original & RCND	
Line No.	Description	Original Cost	RCND Cost	ACC Jurisdiction	Line No.
1	Cash Working Capital	$1,568	$1,568	$1,568	1
2	Materials & Supplies (Accounts 154 and 163)	2,010,788	2,010,788	2,010,788	2
3	Prepayments	352,564	352,564	352,564	3
4	Total Working Capital Allowance	$2,364,920	$2,364,920	$2,364,920	4

Supporting Schedules
B-5 (P2)

Recap Schedules
B-1

UNS Gas, Inc.
Detail of Adjustments to Working Capital
Test Year Ended June 30, 2008

Line No.	Description	Actual	Adjustments: Thirteen Month Average	Adjustments: Cash Working Capital	Total Adjusted	Line No.
1	Cash Working Capital	$0	N/A	$1,568	$1,568	1
2	Materials & Supplies (Accounts 154 and 163)	2,010,060	728	N/A	2,010,788	2
3	Prepayments	256,893	95,671	N/A	352,564	3
4	Total	$2,266,954	$96,399	$1,568	$2,364,920	4

Supporting Schedules
B-5 (P3)

Recap Schedules
B-5 (P1)

UNS Gas, Inc.
Cash Working Capital - Lead/Lag Study
Test Year Ended June 30, 2008

Line No.	Description	Pro Forma Test Year Amount	Revenue Lag Days	Expense Lag Days	Net Lag Days (Col. C - Col. D)	Lead/Lag Factor (Col. E/365)	Cash Working Capital Required (Col. F x Col. B)	Line No.
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	
	Operating Expenses							
	Non-Cash Expenses							
1	Bad Debts Expense	$688,379						1
2	Depreciation	9,057,437						2
3	Amortization	(817,432)						3
4	Deferred Income Taxes	2,869,418						4
	Other Operating Expenses							
5	Salaries and Wages	7,750,405	40.70	24.50	16.20	0.0444	$344,118	5
6	Incentive Compensation	310,278	40.70	267.00	(226.30)	(0.6200)	(192,372)	6
7	Purchased Gas Costs	87,528,793	40.70	27.89	12.81	0.0351	3,072,261	7
8	Office Supplies and Expenses	1,057,383	40.70	20.72	19.98	0.0547	57,839	8
9	Injuries and Damages	508,477	40.70	64.75	(24.05)	(0.0659)	(33,509)	9
10	Pensions and Benefits	1,544,121	40.70	54.66	(13.96)	(0.0382)	(58,985)	10
11	Support Services - TEP	7,079,463	40.70	44.75	(4.05)	(0.0111)	(78,582)	11
12	Property Taxes	3,610,079	40.70	213.00	(172.30)	(0.4721)	(1,704,318)	12
13	Payroll Taxes	560,124	40.70	19.41	21.29	0.0583	32,655	13
14	Current Income Taxes	734,254	40.70	41.42	(0.72)	(0.0020)	(1,469)	14
15	Interest on Customer Deposits	137,200	40.70	182.50	(141.80)	(0.3885)	(53,302)	15
16	Other Operations and Maintenance	6,212,916	40.70	53.10	(12.40)	(0.0340)	(211,239)	16
17	Total Operating Expenses	$128,831,296						17
	Other Cash Working Capital Elements:							
18	Interest On Long-Term Debt	$5,924,526	40.70	89.50	(48.80)	(0.1337)	(792,109)	18
19	Revenue Taxes and Assessments	$13,847,423	40.70	50.70	(10.00)	(0.0274)	(379,419)	19
20	Total Cash Working Capital						$1,568	20

Supporting Schedules	Recap Schedules
N/A	B-2, B-3

Schedule C

UNS Gas, Inc.
Adjusted Test Year Income Statement
Test Year Ended June 30, 2008

Line No.	Description	Unadjusted (a)	Pro Forma Adjustments (b)	Adjusted	ACC Jurisdiction	FERC Jurisdiction	Line No.
	Operating Revenues						
1	Gas Retail Revenues	$161,759,581	($110,601,818)	$51,157,763	$51,157,763	$0	1
2	Other Operating Revenue	1,636,425	108,318	1,744,743	1,744,743	0	2
3	Total Operating Revenues	163,396,006	(110,493,500)	52,902,506	52,902,506	0	3
	Operating Expenses						
4	Purchased Gas	109,328,534	(108,930,899)	397,635	397,635	0	4
5	Other Operations and Maintenance Expense	24,753,535 (1)	(34,422)	24,719,113	24,719,113	0	5
6	Depreciation and Amortization	8,437,470	(197,465)	8,240,005	8,240,005	0	6
7	Taxes Other than Income Taxes	3,000,914	1,341,164	4,342,078	4,342,078	0	7
8	Income Taxes	4,428,062	(824,391)	3,603,671	3,603,671	0	8
9	Total Operating Expenses	149,948,515	(108,646,013)	41,302,502	41,302,502	0	9
10	Operating Income	13,447,491	($1,847,487)	$11,600,004	$11,600,004	$0	10
	Other Income and Deductions						
11	Allowance for Equity Funds	137,755					
12	Other - Net	241,016					
13	Total Other Income and Deductions	378,771					
14	Income Before Interest Expense	13,826,262					
	Interest Expense						
15	Interest on Long-Term Debt	6,429,478					
16	Other Interest Expense	324,398 (1)					
17	Allowance for Borrowed Funds	(101,633)					
18	Total Interest Expense	6,652,243					
19	Net Income Available for Common Stock	$7,174,019					

(1) Includes reclassification of $137,200 for Customer Deposit Interest Expense From Other Interest Expense to Other O&M Expense.

Supporting Schedules	Recap Schedules
(a) E-2	A-1
(b) C-2	A-2

UNS Gas, Inc.
Income Statement Pro Forma Adjustments
Test Year Ended June 30, 2008

Line No.	Description	Griffith Plant Operations	Golden Valley Rev & Exp	Gas Cost Rev & Purch Gas Cost	NSP Revenue & Gas Cost	Rate Case Revenue Annualization	Customer Annualization	Total Page Adjustments	Line No.
	Operating Revenues								
1	Gas Retail Revenues	($865,152)	($2,148,778)	($90,472,202)	($17,165,706)	$1,448,476	($516,003)	($109,719,365)	1
2	Other Operating Revenue	0	0	0	0	0	0	0	2
3	Total Operating Revenues	(865,152)	(2,148,778)	(90,472,202)	(17,165,706)	1,448,476	(516,003)	(109,719,365)	3
	Operating Expenses								
4	Purchased Gas	0	(1,762,029)	(90,472,202)	(16,696,668)	0	0	(108,930,899)	4
5	Other Operations and Maintenance Expense	(160,390)	(1,900)	0	0	0	0	(162,290)	5
6	Depreciation and Amortization	0	0	0	0	0	0	0	6
7	Taxes Other than Income Taxes	0	(18)	0	0	0	0	(18)	7
8	Income Taxes	0	0	0	0	0	0	0	8
9	Total Operating Expenses	(160,390)	(1,763,947)	(90,472,202)	(16,696,668)	0	0	(109,093,207)	9
10	Operating Income	($704,762)	($384,831)	$0	($469,038)	$1,448,476	($516,003)	($626,158)	10

Supporting Schedules	Recap Schedules
N/A	C-1

UNS Gas, Inc.
Income Statement Pro Forma Adjustments
Test Year Ended June 30, 2008

Line No.	Description	Weather Normalization	DSM Revenue & Expense	Service Fees & Late Fees	Payroll Expense	Payroll Tax Expense	Pension and Benefits	Total Page Adjustments	Line No.
	Operating Revenues								
1	Gas Retail Revenues	($882,453)	$0	$0	$0	$0	$0	($882,453)	1
2	Other Operating Revenue	0	(130,917)	239,235	0	0	0	108,318	2
3	Total Operating Revenues	(882,453)	(130,917)	239,235	0	0	0	(774,135)	3
	Operating Expenses								
4	Purchased Gas	0	0	0	0	0	0	0	4
5	Other Operations and Maintenance Expense	0	(128,701)	0	362,018	0	77,544	310,861	5
6	Depreciation and Amortization	0	0	0	0	0	0	0	6
7	Taxes Other than Income Taxes	0	(2,216)	0	0	2,557	0	341	7
8	Income Taxes	0	0	0	0	0	0	0	8
9	Total Operating Expenses	0	(130,917)	0	362,018	2,557	77,544	311,202	9
10	Operating Income	($882,453)	$0	$239,235	($362,018)	($2,557)	($77,544)	($1,085,337)	10

Supporting Schedules	Recap Schedules
N/A	C-1

UNS Gas, Inc.
Income Statement Pro Forma Adjustments
Test Year Ended June 30, 2008

Line No.	Description	Incentive Compensation	Rate Case Expense	CARES Expense	CARES Regulatory Asset Amort.	Y2K Amortization	Miscellaneous Expenses	Total Page Adjustments	Line No.
	Operating Revenues								
1	Gas Retail Revenues	$0	$0	$0	$0	$0	$0	$0	1
2	Other Operating Revenue	0	0	0	0	0	0	0	2
3	Total Operating Revenues	0	0	0	0	0	0	0	3
	Operating Expenses								
4	Purchased Gas	0	0	0	0	0	0	0	4
5	Other Operations and Maintenance Expense	29,310	200,000	30,950	0	0	(812,448)	(552,188)	5
6	Depreciation and Amortization	0	0	(56,933)	164,197	(76,753)	0	30,511	6
7	Taxes Other than Income Taxes	1,620	0	0	0	0	(14,853)	(13,233)	7
8	Income Taxes	0	0	0	0	0	0	0	8
9	Total Operating Expenses	30,930	200,000	(25,983)	164,197	(76,753)	(827,301)	(534,910)	9
10	Operating Income	($30,930)	($200,000)	$25,983	($164,197)	$76,753	$827,301	$534,910	10

Supporting Schedules
N/A

Recap Schedules
C-1

UNS Gas, Inc.
Income Statement Pro Forma Adjustments
Test Year Ended June 30, 2008

Line No.	Description	Normalize Outside Legal Expense	Bad Debt Expense	Depr. & Amort. Exp. Annualization	Property Tax	Income Taxes		Total Page Adjustments	Total Adjustments	Line No.
	Operating Revenues									
1	Gas Retail Revenues	$0	$0	$0	$0	$0	$0	$0	($110,601,818)	1
2	Other Operating Revenue	0	0	0	0	0	0	0	108,318	2
3	Total Operating Revenues	0	0	0	0	0	0	0	(110,493,500)	3
	Operating Expenses									
4	Purchased Gas	0	0	0	0	0	0	0	(108,930,899)	4
5	Other Operations and Maintenance Expense	305,984	63,211	0	0	0	0	369,195	(34,422)	5
6	Depreciation and Amortization	0	0	(227,976)	0	0	0	(227,976)	(197,465)	6
7	Taxes Other than Income Taxes	0	0	0	1,354,074	0	0	1,354,074	1,341,164	7
8	Income Taxes	0	0	0	0	(824,391)	0	(824,391)	(824,391)	8
9	Total Operating Expenses	305,984	63,211	(227,976)	1,354,074	(824,391)	0	670,902	(108,646,013)	9
10	Operating Income	($305,984)	($63,211)	$227,976	($1,354,074)	$824,391	$0	($670,902)	($1,847,487)	10

Supporting Schedules
N/A

Recap Schedules
C-1

UNS Gas, Inc.
Computation of Gross Revenue Conversion Factor
Test Year Ended June 30, 2008

Line No.	Description	Percentage of Incremental Gross Revenues		Line No.
1	Gross Revenue	100.00%		1
2	Less: Uncollectible Revenue	0.48700%		2
3	Taxable Income as a Percent	99.51%		3
4	Less: Federal (31.630%) and State Income Taxes (6.968%) (Combined Effective Tax Rate = 38.598%)	38.41%		4
5	Change in Net Operating Income	61.10%		5
6	Gross Revenue Conversion Factor	1.6366	(a)	6

(a) Line No. 1 divided by line No. 5.

Supporting Schedules	Recap Schedules
N/A	A-1

Schedule D

UNS Gas, Inc.
Summary Cost of Capital
Test Year Ended June 30, 2008
(Thousands of Dollars)

Line No.	Capital Source		Capitalization Amount		Capitalization Percent	Cost Rate	Weighted Cost of Capital (c)	Line No.
	Actual - End of Test Period							
1	Short-Term Debt		$0		0.00%	3.95%	0.00%	1
2	Long-Term Debt - Net	(a)	$99,265	(1)	50.01%	6.49%	3.25%	2
3	Common Stock Equity	(b)	99,242		49.99%	11.00%	5.50%	3
4	Total Capital		$198,507		100.00%		8.75%	4

(1) The balance of Long-Term Debt is stated net of the unamortized balance of debt discount and issuance expense. Page 1 of Schedule D-2 provides a reconciliation between the Long-Term Debt balance of $100 million shown on Schedule E-1 and the $99.2 million balance shown above.

Supporting Schedules
(a) D-2
(b) E-1

Recap Schedules
(c) A-3

UNS Gas, Inc.
Summary Cost of Capital
Projected Year Ended June 30, 2009
(Thousands of Dollars)

Line No.	Capital Source		Capitalization Amount	Capitalization Percent	Cost Rate	Weighted Cost of Capital (b)	Line No.
	Projected as of June 30, 2009						
1	Short-Term Debt		$0	0.00%	3.95%	0.00%	1
2	Long-Term Debt - Net	(a)	99,430	48.41%	6.48%	3.14%	2
3	Common Stock Equity		105,959	51.59%	11.00%	5.67%	3
4	Total Capital		$205,389	100.00%		8.81%	4

Supporting Schedules
(a) D-2

Recap Schedules
(b) A-3

UNS Gas, Inc.
Cost of Long-Term Debt and Short-Term Debt
Test Year Ended June 30, 2008
(Thousands of Dollars)

Line No.	Description	End of Test Period (Actual) Outstanding	Annual Interest	Cost Rate	End of Test Period (Proposed) Outstanding	Annual Interest	Cost Rate	Line No.
	Senior Notes							
1	UNS Gas Series A	$50,000	$3,115		$50,000	$3,115		1
2	UNS Gas Series B	50,000	3,115		50,000	3,115		2
3	Total Bonds	100,000	6,230	6.23%	100,000	6,230	6.23%	3
4	Total Long-Term Debt	100,000	6,230	6.23%	100,000	6,230	6.23%	4
5	Unamortized Debt Discount, Premium and Expense and Loss on Reacquired Debt	(735)			(735)			5
6	Amortization of Debt Discount and Expense and Loss on Reacquired Debt		170			170		6
7	Credit Facility Commitment Fees		43			43		7
8	Total Long-Term Debt - Net	$99,265	$6,443	6.49%	$99,265	$6,443	6.49%	8
9	Total Short-Term Debt	N/A	N/A	N/A	N/A	N/A	N/A	9

Supporting Schedules
E-1

Recap Schedules
D-1

UNS Gas, Inc.
Cost of Long-Term Debt and Short-Term Debt
Projected Year Ended June 30, 2009
(Thousands of Dollars)

Line No.	Description	Projected Period Ended June 30, 2009 Outstanding	Annual Interest	Cost Rate	Line No.
	Senior Notes				
1	UNS Gas Series A	$50,000	$3,115		1
2	UNS Gas Series B	50,000	3,115		2
3	Total Bonds	100,000	6,230	6.23%	3
4	Total Long-Term Debt	100,000	6,230	6.23%	4
	Unamortized Debt Discount, Premium and				
5	Expense and Loss on Reacquired Debt	(570)			5
	Amortization of Debt Discount and				
6	Expense and Loss on Reacquired Debt		165		6
7	Credit Facility Commitment Fees		46		7
8	Total Long-Term Debt - Net	$99,430	$6,441	6.48%	8
9	Total Short-Term Debt (1)	$0	$10	3.95%	9

(1) The company projects short-term borrowings from October through December, with the outstanding balance changing from month to month.

Supporting Schedules
N/A

Recap Schedules
D-1

UNS Gas, Inc.
Cost of Preferred Stock
Test Year Ended June 30, 2008

No preferred stock was outstanding during the test year.

No preferred stock is expected to be issued.

Supporting Schedules	Recap Schedules
N/A	N/A

UNS Gas, Inc.
Cost of Common Equity
Test Year Ended June 30, 2008

The cost of common equity capital for UNS Gas, Inc. is estimated to be 11.0%.

Supporting Schedules	Recap Schedules
N/A	D-1

Schedule E

UNS Gas, Inc.
Comparative Balance Sheets
Test Year Ended June 30, 2008 and Prior Years Ended December 31, 2007 and 2006

Line No.	Description	June 30, 2008	Prior Years Ended December 31, 2007	2006	Line No.
	(a) Utility Plant				
1	Plant in Service	$340,154,214	$328,110,573	$315,049,649	1
2	Construction Work in Progress	5,496,015	9,618,275	7,199,124	2
3	Plant Held for Future Use	334,380	668,759	668,759	3
4	Southern Union Acquisition Premium	18,271,349	18,271,349	18,271,348	4
5	Citizens Acquisition Discount	(68,391,292)	(68,391,292)	(68,391,292)	5
6	Total Utility Plant	295,864,665	288,277,663	272,797,588	6
7	Accumulated Depreciation and Amortization	(93,765,398)	(89,588,999)	(86,257,832)	7
8	Accumulated Amort. - So. Union Acquisition Premium	(2,125,967)	(1,908,716)	(1,474,455)	8
9	Accumulated Amort. - Citizens Acquisition Discount	8,764,777	7,854,555	6,066,543	9
10	Total Utility Plant - Net	208,738,077	204,634,504	191,131,844	10
	Current Assets				
11	Cash and Cash Equivalents	18,573,652	19,305,283	18,692,721	11
12	Accounts Receivable - Retail Customers	7,084,598	11,774,235	17,358,928	12
13	Allowance for Doubtful Accounts	(1,219,587)	(1,010,624)	(366,736)	13
14	Accrued Unbilled Revenues	6,251,679	18,015,020	14,654,874	14
15	Intercompany Accounts Receivable	2,520,226	28,409	885,274	15
16	Material and Supplies	2,010,060	2,022,441	2,161,365	16
17	Income Tax Receivable	0	447,909	0	17
18	Deferred Income Taxes	691,662	546,333	283,816	18
19	Energy Contracts - Derivative Assets	4,058,816	13,836	0	19
20	Other	1,072,748	115,549	538,601	20
21	Total Current Assets	41,043,854	51,258,396	54,208,843	21
	Regulatory & Other Assets				
22	Regulatory Assets	1,469,815	1,494,137	1,844,766	22
23	Unamortized Debt Discount and Expense	734,726	817,096	993,227	23
24	Energy Contracts - Derivative Assets	3,480,303	67,939	0	24
25	Other	(11,932)	0	714,604	25
26	Total Deferred Debits	5,672,912	2,379,172	3,552,597	26
27	Total Assets	$255,454,843	$258,272,072	$248,893,284	27

Supporting Schedules
(a) E-5
E-9

Recap Schedules
A-4

UNS Gas, Inc.
Comparative Balance Sheets
Test Year Ended June 30, 2008 and Prior Years Ended December 31, 2007 and 2006

Line No.	Description	June 30, 2008	Prior Years Ended December 31, 2007	Prior Years Ended December 31, 2006	Line No.
	Capitalization				
1	Common Stock	$1	$1	$1	1
2	Additional Paid-In Capital	67,978,215	67,978,215	67,978,215	2
3	Accumulated Earnings	31,263,613	20,287,059	16,175,852	3
4	Total Common Stock Equity	99,241,829	88,265,275	84,154,068	4
5	Long-Term Debt	100,000,000	100,000,000	100,000,000	5
6	Total Capitalization	199,241,829	188,265,275	184,154,068	6
	Current Liabilities				
7	Under/(Over) Recovered Purchased Gas Costs	3,812,965	13,083,767	10,707,127	7
8	Accounts Payable - Net	10,342,282	20,663,810	19,799,722	8
9	Intercompany Payables - Net	1,599,282	2,150,938	1,281,155	9
10	Interest Accrued	2,374,487	2,461,655	2,454,486	10
11	Income Taxes Accrued	2,076,612	0	3,545	11
12	Other Taxes Accrued	2,609,017	4,702,527	4,873,076	12
13	Customer Deposits	2,609,271	3,090,471	3,363,760	13
14	Accrued Employee Expenses	889,217	978,871	878,041	14
15	Other Regulatory Liabilities	140,324	26,509	0	15
16	Forward Sales and Purchases Contracts	120,637	0	0	16
17	Other	239,710	129,897	151,872	17
18	Total Current Liabilities	26,813,804	47,288,446	43,512,784	18
	Deferred Credits and Other Liabilities				
19	Customer Advances for Construction	11,825,028	10,396,634	10,391,953	19
20	Accumulated Deferred Income Taxes	15,748,641	10,451,144	8,320,381	20
21	Deferred Employee Benefits	1,769,933	1,786,951	2,438,195	21
22	Other	55,607	83,622	75,903	22
23	Total Deferred Credits and Other Liabilities	29,399,209	22,718,351	21,226,432	23
24	Total Liabilities and Stockholders' Equity	$255,454,843	$258,272,072	$248,893,284	24

Supporting Schedules
E-9

Recap Schedules
A-3

UNS Gas, Inc.
Comparative Income Statements
Test Year Ended June 30, 2008 and Prior Years Ended December 31, 2007 and 2006

Line No.	Description		June 30, 2008	Prior Years Ended December 31, 2007	2006	Line No.
	(a) Operating Revenues					
1	Gas Retail Revenues		$161,759,581	$149,521,793	$160,486,195	1
2	Other Operating Revenue		1,636,425	1,430,929	1,530,313	2
3	Total Operating Revenues		163,396,006	150,952,722	162,016,508	3
	(a) Operating Expenses					
4	Purchased Gas Expenses		109,328,534	101,529,345	114,426,857	4
5	Other Operations and Maintenance Expense		24,616,335	26,848,831	24,597,503	5
6	Depreciation and Amortization		8,437,470	7,648,713	6,732,220	6
7	Taxes Other than Income Taxes		3,000,914	2,982,314	2,917,223	7
8	Income Taxes		4,428,062	2,047,765	2,626,954	8
9	Total Operating Expenses		149,811,315	141,056,968	151,300,757	9
10	Operating Income		13,584,691	9,895,754	10,715,751	10
	Total Other Income and Deductions					
11	Allowance for Equity Funds		137,755	283,907	144,703	11
12	Other - Net		241,016	618,774	241,352	12
13	Total Other Income and Deductions		378,771	902,681	386,055	13
14	Income Before Interest Expense		13,963,462	10,798,435	11,101,806	14
	Interest Expense					
15	Interest on Long Term-Debt		6,429,478	6,421,744	6,444,580	15
16	Other Interest Expense		461,598	637,434	379,174	16
17	Allowance for Borrowed Funds		(101,633)	(254,205)	(109,713)	17
18	Total Interest Expense		6,789,443	6,804,973	6,714,041	18
19	Net Income Available for Common Stock		$7,174,019	$3,993,462	$4,387,765	19
20	Earnings Per Share of Average Common Stock Outstanding	(1)	N/A	N/A	N/A	20

(1) UNS Gas, Inc. is a subsidiary of UniSource Energy Corporation and has no publicly traded stock; thus such information is not meaningful.

Supporting Schedules	Recap Schedules
(a) E-6	A-2
E-9	

UNS Gas, Inc.
Comparative Statements of Cash Flows
Test Year Ended June 30, 2008 and Prior Years Ended December 31, 2007 and 2006
(Thousands of Dollars)

Line No.	Description	June 30, 2008	Prior Years Ended December 31, 2007	Prior Years Ended December 31, 2006	Line No.
	Cash Flows from Operating Activities				
1	Cash Receipts from Customers	$171,788	$165,677	$173,243	1
2	Interest Received	550	856	407	2
3	Other Cash Receipts	2,349	1,390	159	3
4	Purchased Gas Costs Paid	(113,847)	(97,137)	(97,504)	4
5	Wages Paid, Net of Amounts Capitalized	(6,999)	(7,187)	(6,847)	5
6	Payment of Other Operations and Maintenance Costs	(9,228)	(11,201)	(10,779)	6
7	Interest Paid, Net of Amounts Capitalized	(6,100)	(6,122)	(6,240)	7
8	Taxes Paid, Net of Amounts Capitalized	(17,319)	(17,115)	(17,322)	8
9	Income Taxes Paid	1,293	(43)	(2,750)	9
10	Other Cash Payments	(5,279)	(750)	(861)	10
11	Net Cash Flows from Operating Activities	17,208	28,368	31,506	11
	Cash Flows From Investing Activities				
12	Capital Expenditures	(20,012)	(22,589)	(23,404)	12
13	Other	0	506	428	13
14	Net Cash Flows from Investing Activities	(20,012)	(22,083)	(22,976)	14
	Cash Flows from Financing Activities				
15	Proceeds from Borrowings under Revolving Credit Facility	0	0	5,000	15
16	Repayment of Borrowings under Revolving Credit Facility	0	0	(5,000)	16
17	Payment of Debt Issuance Costs	0	(7)	(81)	17
18	Equity Investment from UniSource Energy Services	0	0	0	18
19	Loan from UniSource Energy	0	0	0	19
20	Repayment of Loan from UniSource Energy	0	0	0	20
21	Customer Advance Receipts	3,859	3,397	5,044	21
22	Customer Advance Refunds	(1,683)	(2,519)	(3,201)	22
23	Intercompany Advances/Repayments	(3,719)	(6,544)	(5,652)	23
24	Net Cash Flows from Financing Activities	(1,543)	(5,673)	(3,890)	24
25	Net Increase (Decrease) in Cash and Cash Equivalents	(4,347)	612	4,640	25
26	Cash and Cash Equivalents, Beginning of Period	22,921	18,693	14,053	26
27	Cash and Cash Equivalents, End of Period	$18,574	$19,305	$18,693	27

Supporting Schedules
N/A

Recap Schedules
A-5

UNS Gas, Inc.
Comparative Statements of Changes in Stockholders' Equity (Deficit)
Test Year Ended June 30, 2008 and Prior Years Ended December 31, 2007 and 2006
(Thousands of Dollars, except shares outstanding)

Line No.	Description	Common Stock Shares Outstanding	Common Stock Amount	Premium on Common Stock	Common Stock Expense	Accumulated Earnings or (Deficit)	Comprehensive Income (Loss)	Total Common Stock Equity or (Deficit)	Line No.
1	Balance, December 31, 2005	1,000	$67,978	$0	$0	$11,826	$0	$79,804	1
2	Net Income for Year					$4,388		$4,388	2
3	Dividend Declared					$0		$0	3
4	Equity in Earnings					$0		$0	4
5	Adj to Initially Recognize the Funded Status of Employee Benefit Plans						($38)	($38)	5
6	Equity Contribution from UniSource Energy Services		$0					$0	6
7	Other	0	$0					$0	7
8	Balance, December 31, 2006	1,000	$67,978	$0	$0	$16,214	($38)	$84,154	8
9	Net Income for Year					$3,994		$3,994	9
10	Dividend Declared					$0		$0	10
11	Equity in Earnings					$0		$0	11
12	Decrease in Post-Retirement Medical Liability						$68	$68	12
13	Unrealized Gain on Cash Flow Hedges						$49	$49	13
14	Equity Contribution from UniSource Energy Services		$0					$0	14
15	Other	0	$0					$0	15
16	Balance, December 31, 2007	1,000	$67,978	$0	$0	$20,208	$79	$88,265	16
17	Impact of Change in Pension Plan Measurement Date					($40)		($40)	17
18	Net Income for Six Months Ended June 30, 2008					$6,601		$6,601	18
19	Dividend Declared					$0		$0	19
20	Equity in Earnings					$0		$0	20
21	Decrease in Post-Retirement Medical Liability						$0	$0	21
22	Unrealized Gain on Cash Flow Hedges						$4,527	$4,527	22
23	Reclassification of Unrealized Gains on Cash Flow Hedges to Net Income						($111)	($111)	23
24	Equity Contribution from UniSource Energy Services		$0					$0	24
25	Other	0	$0					$0	25
26	Balance, June 30, 2008	1,000	$67,978	$0	$0	$26,769	$4,495	$99,242	26

Supporting Schedules
N/A

Recap Schedules
N/A

UNS Gas, Inc.
Detail of Gas Utility Plant - Summary Statement
Test Year Ended June 30, 2008

Line No.	Description	June 30, 2008 (a)	Net Additions (a)	December 31, 2007 (a)	Line No.
	Utility Plant in Service				
1	Intangible Plant	$1,140,492	($7,939)	$1,148,431	1
2	Transmission Plant	26,189,148	0	26,189,148	2
3	Distribution Plant	292,322,354	11,024,733	281,297,621	3
4	General Plant	20,502,221	1,026,846	19,475,374	4
5	Gross Plant in Service	340,154,214	12,043,640	328,110,573	5
6	Construction Work in Progress	5,496,015	(4,122,260)	9,618,275	6
7	Plant Held for Future Use	334,380	(334,379)	668,759	7
8	Southern Union Acquisition Premium	18,271,349	0	18,271,349	8
9	Citizens Acquisition Discount	(68,391,292)	0	(68,391,292)	9
10	Total Utility Plant	295,864,665	7,587,001	288,277,663	10
11	Accumulated Depreciation and Amortization	(93,765,398)	(4,176,399)	(89,588,999)	11
12	Accumulated Amort. - So. Union Acquisition Premium	(2,125,967)	(217,251)	(1,908,716)	12
13	Accumulated Amort. - Citizens Acquisition Discount	8,764,777	910,223	7,854,554	13
14	Total Accumulated Depreciation and Amortization	(87,126,588)	(3,483,428)	(83,643,160)	14
15	Total Net Utility Plant in Service	$208,738,077	$4,103,573	$204,634,503	15

Supporting Schedules
(a) E-5 (P2-4)

Recap Schedules
E-1

UNS Gas, Inc.
Detail of Gas Utility Plant
Test Year Ended June 30, 2008

Line No.	Acct. No.	Description	June 30, 2008	Net Additions	December 31, 2007	Line No.
		Intangible Plant				
1	302	Franchises & Consents	$362,992	($7,939)	$370,931	1
2	303	Miscellaneous Intangible Plant	777,500	0	777,500	2
3		Total Intangible Plant	1,140,492	(7,939)	1,148,431	3
		Transmission Plant				
4	365	Land & Land Rights	102,606	0	102,606	4
5	366	Structures & Improvements	16,853	0	16,853	5
6	367	Mains	22,312,011	0	22,312,011	6
7	369	Measuring and Req. Station Equipment	3,574,097	0	3,574,097	7
8	371	Other Equipment	183,581	0	183,581	8
9		Total Transmission Plant	$26,189,148	$0	$26,189,148	9
		Distribution Plant				
10	374	Land & Land Rights	257,989	0	257,989	10
11	375	Structures & Improvements	10,947	0	10,947	11
12	376	Mains	170,344,632	7,379,855	162,964,777	12
13	378	Meas. And Req. Equipment - General	2,501,503	225,461	2,276,042	13
14	379	Meas. And Req. Equipment - City Gate	3,789,758	1,358,776	2,430,982	14
15	380	Services	86,176,959	2,059,728	84,117,231	15
16	381	Meters	13,780,227	28,574	13,751,653	16
17	382	Meter Installation	8,633,492	303,477	8,330,015	17
18	383	Regulators	2,886,748	59,941	2,826,807	18
19	384	Regulator Installations	1,352,659	111,503	1,241,156	19
20	385	Industrial Measuring Equipment	1,445,920	96,569	1,349,351	20
21	387	Other Equipment	1,141,520	(599,151)	1,740,671	21
22		Total Distribution Plant	292,322,354	11,024,733	281,297,621	22
		General Plant				
23	389	Land & Land Rights	394,121	334,380	59,741	23
24	390	Structures & Improvements	5,305,943	214,482	5,091,461	24
25	391	Office Furniture & Equipment	2,084,838	12,323	2,072,515	25
26	392	Transportation Equipment	7,088,197	358,001	6,730,196	26
27	393	Stores Equipment	200,996	3,110	197,886	27
28	394	Tools, Shop & Garage Equipment	2,262,055	40,015	2,222,040	28
29	395	Laboratory Equipment	600,654	(6,791)	607,445	29
30	396	Power Operated Equipment	1,209,317	66,713	1,142,604	30
31	397	Communication Equipment	1,078,532	5,104	1,073,428	31
32	398	Miscellaneous Equipment	277,567	(491)	278,058	32
33		Total General Plant	20,502,221	1,026,846	19,475,374	33
34		Total Gas Plant in Service	$340,154,214	$12,043,640	$328,110,573	34

Supporting Schedules
N/A

Recap Schedules
E-5 (P1)

UNS Gas, Inc.
Detail of Gas Utility Plant
Test Year Ended June 30, 2008

Line No.	Acct. No.	Description	June 30, 2008	Net Additions	December 31, 2007	Line No.
		Southern Union Acquisition Premium				
		Intangible Plant				
1	302	Franchises & Consents	$20,652	$0	$20,652	1
2	303	Miscellaneous Intangible Plant	152,338	0	152,338	2
3		Total Intangible Plant	172,990	0	172,990	3
		Distribution Plant				
4	376	Mains	11,988,346	0	11,988,346	4
5	378	Meas. And Req. Equipment - General	203,438	0	203,438	5
6	379	Meas. And Req. Equipment - City Gate	266,836	0	266,836	6
7	380	Services	3,646,695	0	3,646,695	7
8	381	Meters	846,443	0	846,443	8
9	382	Meter Installation	6,102	0	6,102	9
10	383	Regulators	(109,825)	0	(109,825)	10
11	385	Industrial Measuring Equipment	272,367	0	272,367	11
12	387	Other Equipment	203,196	0	203,196	12
13		Total Distribution Plant	17,323,598	0	17,323,598	13
		General Plant				
14	389	Land and Land Rights	133,238	0	133,238	14
15	390	Structures & Improvements	173,464	0	173,464	15
16	391	Office Furniture & Equipment	21,060	0	21,060	16
17	393	Stores Equipment	26,148	0	26,148	17
18	394	Tools, Shop & Garage Equipment	434,479	0	434,479	18
19	396	Power Operated Equipment	(12,900)	0	(12,900)	19
20	398	Miscellaneous Equipment	(728)	0	(728)	20
21		Total General Plant	774,761	0	774,761	21
22		Total Southern Union Acquisition Premium	$18,271,349	$0	$18,271,349	22

Supporting Schedules
N/A

Recap Schedules
E-5 (P1)

UNS Gas, Inc.
Detail of Gas Utility Plant
Test Year Ended June 30, 2008

Line No.	Acct. No.	Description	June 30, 2008	Net Additions	December 31, 2007	Line No.
		Citizens Acquisition Discount				
		Intangible Plant				
1	302	Franchises & Consents	($81,207)	$0	($81,207)	1
2	303	Miscellaneous Intangible Plant	(80,488)	0	(80,488)	2
3		Total Intangible Plant	(161,695)	0	(161,695)	3
		Transmission Plant				
4	365	Land & Land Rights	(34,352)	0	(34,352)	4
5	366	Structures & Improvements	(5,238)	0	(5,238)	5
6	367	Mains	(3,573,586)	0	(3,573,586)	6
7	369	Measuring and Req. Station Equipment	(945,244)	0	(945,244)	7
8	371	Other Equipment	(53,866)	0	(53,866)	8
9		Total Transmission Plant	(4,612,286)	0	(4,612,286)	9
		Distribution Plant				
10	374	Land & Land Rights	(86,374)	0	(86,374)	10
11	375	Structures & Improvements	(550)	0	(550)	11
12	376	Mains	(39,243,723)	0	(39,243,723)	12
13	378	Meas. And Req. Equipment - General	(419,801)	0	(419,801)	13
14	379	Meas. And Req. Equipment - City Gate	(533,526)	0	(533,526)	14
15	380	Services	(14,788,354)	0	(14,788,354)	15
16	381	Meters	(2,585,551)	0	(2,585,551)	16
17	382	Meter Installation	(1,658,681)	0	(1,658,681)	17
18	383	Regulators	(397,969)	0	(397,969)	18
19	384	Regulator Installations	(183,202)	0	(183,202)	19
20	385	Industrial Measuring Equipment	(237,062)	0	(237,062)	20
21	387	Other Equipment	(325,252)	0	(325,252)	21
22		Total Distribution Plant	(60,460,045)	0	(60,460,045)	22
		General Plant				
23	389	Land & Land Rights	(109,571)	0	(109,571)	23
24	390	Structures & Improvements	(273,962)	0	(273,962)	24
25	391	Office Furniture & Equipment	(1,433,870)	0	(1,433,870)	25
26	392	Transportation Equipment	(190,332)	0	(190,332)	26
27	393	Stores Equipment	(39,585)	0	(39,585)	27
28	394	Tools, Shop & Garage Equipment	(513,773)	0	(513,773)	28
29	395	Laboratory Equipment	(175,657)	0	(175,657)	29
30	396	Power Operated Equipment	(12,272)	0	(12,272)	30
31	397	Communication Equipment	(342,300)	0	(342,300)	31
32	398	Miscellaneous Equipment	(65,944)	0	(65,944)	32
33		Total General Plant	(3,157,266)	0	(3,157,266)	33
34		Total Gas Plant in Service	($68,391,292)	$0	($68,391,292)	34

UNS Gas, Inc.
Comparative Departmental Operating Income Statements
Test Year Ended June 30, 2008 and Prior Years Ended December 31, 2007 and 2006

			Prior Years Ended December 31,		
Line No.	Description	June 30, 2008	2007	2006	Line No.
	Operating Revenues				
1	Gas Retail Revenues				1
2	Residential	$94,789,392	$90,554,693	$96,545,767	2
3	Commercial	34,814,893	33,787,924	37,573,401	3
4	Industrial	1,621,239	1,796,767	3,103,969	4
5	Lighting	116,093	107,695	129,273	5
6	Public Authorities	7,317,302	6,983,062	8,046,633	6
7	Negotiated Sales Program (NSP)	17,165,706	12,762,842	11,698,156	7
8	Black Mountain Generating Station Sales	1,993,897	0	0	8
9	Transportation	3,941,059	3,528,810	3,388,996	9
10	Total Retail Revenues	161,759,581	149,521,793	160,486,195	10
11	Other Operating Revenue	1,636,425	1,430,929	1,530,313	11
12	Total Operating Revenues	163,396,006	150,952,722	162,016,508	12
	Operating Expenses				
13	Purchased Gas Expenses (includes NSP)	109,328,534	101,529,345	114,426,857	13
14	Other Operations and Maintenance Expense	24,616,335	26,848,831	24,597,503	14
15	Depreciation and Amortization	8,437,470	7,648,713	6,732,220	15
16	Taxes Other than Income Taxes	3,000,914	2,982,314	2,917,223	16
17	Income Taxes	4,428,062	2,047,765	2,626,954	17
18	Total Operating Expenses	149,811,315	141,056,968	151,300,757	18
19	Operating Income	$13,584,691	$9,895,754	$10,715,751	19

Supporting Schedules
N/A

Recap Schedules
E-2

UNS Gas, Inc.
Gas Operating Statistics
Test Year Ended June 30, 2008 and Prior Years Ended December 31, 2007 and 2006

Line No.	Description	June 30, 2008	Prior Years Ended December 31, 2007	Prior Years Ended December 31, 2006	Line No.
	Therm Sales				
1	Residential	74,201,413	71,766,226	69,805,899	1
2	Commercial	36,689,044	31,080,558	30,248,077	2
3	Industrial	1,748,826	1,950,539	2,850,638	3
4	Lighting	1,225,072	115,685	98,660	4
5	Public Authorities	8,715,424	6,744,498	6,922,088	5
6	Total	122,579,779	111,657,506	109,925,362	6
	Average Number of Customers				
7	Residential	132,347	131,786	129,054	7
8	Commercial	11,446	11,388	11,158	8
9	Industrial	23	22	20	9
10	Lighting	5	2	3	10
11	Public Authorities	4	1,071	1,069	11
12	Total	143,825	144,269	141,304	12
	Average Annual Therm Use				
13	Residential	561	545	541	13
14	Commercial	3,205	2,729	2,711	14
15	Industrial	74,950	88,661	142,532	15
16	Lighting	245,014	57,843	32,887	16
17	Public Authorities	2,178,856	6,297	6,475	17
18	Total	852	774	778	18

Note:
The above statistics exclude the Negotiated Sales Program (NSP) and Transportation. The following data summarizes NSP and Transportation statistics:

	June 30, 2008	2007	2006
Transportation (includes T2-Valencia & excludes BMGS)			
Therm Sales	20,585,885	25,370,429	23,198,385
Average Number of Customers	1,091 (1)	23	23
Average Annual Therm Use	18,864	1,103,062	1,008,625
NSP			
Therm Sales	21,587,368	19,093,737	17,059,932
Average Number of Customers	14	14	14
Average Annual Therm Use	1,541,955	1,363,838	1,218,567

(1) The transportation customer count for the test year ended June 30, 2008 is larger than the prior years due to a change to counting meters instead of customers for ratemaking.

Supporting Schedules
N/A

Recap Schedules
N/A

UNS Gas, Inc.
Taxes Charged to Operations
Test Year Ended June 30, 2008 and Prior Years Ended December 31, 2007 and 2006

Line No.	Description	June 30, 2008	Prior Years Ended December 31, 2007	Prior Years Ended December 31, 2006	Line No.
	Federal Taxes				
1	Income	$1,009,585	$361,250	$3,261,203	1
2	Unemployment	9,526	10,086	10,053	2
3	FICA	537,474	549,481	518,061	3
4	Deferred Income Taxes	2,641,885	1,295,169	(1,097,254)	4
5	Total	4,198,470	2,215,986	2,692,063	5
	State Taxes				
6	Income	425,913	(7,735)	597,042	6
7	Unemployment	11,182	14,522	15,787	7
8	Premium Receipts Tax	0	0	0	8
9	Real and Personal Property	0	0	0	9
10	Deferred Income Taxes	350,680	399,081	(134,036)	10
11	Total	787,775	405,868	478,793	11
	Local Taxes				
12	Income	0	0	0	12
13	Real and Personal Property	2,256,005	2,312,985	2,270,573	13
14	Indian Tribal Taxes - PIT and BAT	0	0	0	14
15	Other	186,728	165,890	102,748	15
16	Total	2,442,733	2,478,875	2,373,321	16
17	Total Taxes Charged to Operating Expenses	$7,428,978	$5,100,729	$5,544,177	17

Note: Taxes and assessments related to sales of energy are not included in revenues or other tax expense categories.

Supporting Schedules	Recap Schedules
N/A	E-2

UNS Gas, Inc.
Test Year Ended June 30, 2008
Notes to Financial Statements

The UNS Gas, Inc. Audited Financials as of December 31, 2007, which are confidential, will be provided when the Protective Agreement for this rate proceeding has been executed.

Supporting Schedules	Recap Schedules
N/A	N/A

Schedule F

UNS Gas, Inc.
Income Statement - Test Year Ended June 30, 2008 and
Projected Year Ended June 30, 2009 at Present and Proposed Rates
(Thousands of Dollars Except Return on Average Common Equity)

Line No.	Description	Test Year Ended June 30, 2008 (a)	Projected Year Ended June 30, 2009 Present Rates	Projected Year Ended June 30, 2009 Proposed Rates	Line No.
1	Operating Revenues	$163,396	$193,031	$202,907	1
	Operating Expenses				
2	Purchased Gas	109,329	136,213	136,213	2
3	Other Operations and Maintenance Expense	24,616	29,178	29,178	3
4	Depreciation and Amortization	8,437	7,338	7,338	4
5	Taxes Other than Income Taxes	3,001	3,186	3,186	5
6	Total Operating Expenses	145,383	175,915	175,915	6
7	Pre-Tax Operating Income	18,013	17,116	26,992	7
	Other Income and Deductions				
8	Allowance for Equity Funds	138	197	197	8
9	Other - Net	241	164	241	9
10	Total Other Income and Deductions	379	361	438	10
11	Income Before Interest Expense	18,392	17,477	27,430	11
	Interest Expense				
12	Interest on Long-Term Debt	6,429	6,223	6,223	12
13	Other Interest Expense	462	274	266	13
14	Allowance for Borrowed Funds	(102)	(144)	(144)	14
15	Total Interest Expense	6,789	6,353	6,345	15
16	Income Before Income Tax Expense	11,603	11,124	21,085	16
17	Income Tax Expense	4,428	4,409	8,351	17
18	Net Income Available for Common Stock	$7,175	$6,715	$12,734	18
19	Earnings Per Share of Average Common Stock Outstanding (1)	N/A	N/A	N/A	19
20	Return on Average Common Equity	7.68%	6.54%	12.06%	20

(1) UNS Gas, Inc. is a subsidiary of UniSource Energy Corporation and has no publicly traded stock; thus such information is not meaningful.

Supporting Schedules
(a) E-2

Recap Schedules
A-2

UNS Gas, Inc.
Statement of Cash Flows - Test Year Ended June 30, 2008 and
Projected Year Ended June 30, 2009 at Present and Proposed Rates
(Thousands of Dollars)

Line No.	Description	Test Year Ended June 30, 2008 (a)	Projected Year Ended June 30, 2009 Present Rates	Projected Year Ended June 30, 2009 Proposed Rates	Line No.
	Cash Flows from Operating Activities				
1	Cash Receipts from Customers	$171,788	$204,515	$214,528	1
2	Other Cash Receipts	$550	1,905	1,905	2
3	Purchased Gas Costs Paid	$2,349	(137,073)	(137,073)	3
4	Payment of Other Operations and Maintenance Costs	($120,846)	(28,136)	(28,136)	4
5	Interest Paid, Net of Amounts Capitalized	($9,228)	(6,388)	(6,381)	5
6	Taxes Paid, Net of Amounts Capitalized	($17,319)	(15,283)	(15,890)	6
7	Income Taxes Paid	$1,293	(3,025)	(4,797)	7
8	Other Cash Payments	($11,379)	(58)	19	8
9	Net Cash Flows from Operating Activities	17,208	16,457	24,175	9
	Cash Flows from Investing Activities				
10	Capital Expenditures	(20,012)	(25,650)	(25,650)	10
11	Other	0	0	0	11
12	Net Cash Flows from Investing Activities	(20,012)	(25,650)	(25,650)	12
	Cash Flow from Financing Activities				
13	Payment of Debt Issuance Costs	0	0	0	13
14	Borrowing under Revolving Credit Facility	0	1	0	14
15	Other	(1,543)	(1,110)	(1,110)	15
16	Net Cash Flows from Financing Activities	(1,543)	(1,109)	(1,110)	16
17	Net Increase (Decrease) in Cash	($4,347)	($10,302)	($2,585)	17

Supporting Schedule
(a) E-3

Recap Schedules
A-5

UNS Gas, Inc.
Projected Construction Requirements
Test Year Ended June 30, 2008 and Projected Years 2009 through 2011
(Thousands of Dollars)

Line No.	Description	Test Year Ended June 30, 2008 (a), (b)	Projected Year Ended December 31, 2009 (a), (b)	2010 (a)	2011 (a)	Total 2009-2011	Line No.
1	Transmission Plant	0	0	0	0	0	1
2	Distribution Plant	17,980	22,039	18,127	20,342	60,508	2
3	General Plant	2,032	1,208	2,020	2,109	5,337	3
4	Total Construction Expenditures	$20,012	$23,247	$20,147	$22,451	$65,845	4

Supporting Schedules
N/A

Recap Schedules
(a) A-4
(b) F-2

UNS Gas, Inc.
Key Assumptions Used in Preparing Forecasts

Customer Growth and Sales
Retail customer growth is forecasted to be 1.5% in 2009.
Retail sales growth is forecasted to be (0.1)% in 2009. (On a weather-normalized basis, retail sales growth is expected to be 1.8% in 2009).

Purchased Gas Costs
Natural gas costs are forecasted using forward market projections and completed hedging transactions as of August 29, 2008.
PGA pricing and gas cost recovery are based on the PGA mechanism in effect as of September 2008, with pricing adjustments from January 2009 - December 2009 to bring the 2009 Regulatory PGA Bank balance to zero.

Operations and Maintenance Expenses
O&M Expenses for 2009 are based on the operating budget approved in December 2007, with the adjustments for DSM expenses and vehicle depreciation.

Construction Expenditures
Construction expenditures for 2009 are based on the capital budget approved in December 2007, net of forecasted CIAC.

Interest Rate Assumptions
The interest rate on temporary investments is forecasted at 2.95% in 2009.
The interest rate on short-term borrowing is forecasted at 4.45% in 2009.

Capital Structure Changes
The balance of common equity is forecasted to grow in 2009 due to continued retention of earnings (no dividend is assumed).
External financing needs are assumed to be met with borrowings under the UNS Gas revolving credit facility.

Schedule G

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

	ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
SUMMARY AT PRESENT RATES								
DEVELOPMENT OF RATE BASE								
GAS PLANT IN SERVICE		$287,517,886	$200,012,920	$48,453,782	$22,977,931	$15,852,403	$142,389	$78,461
DEPREC & AMORT RESERVE		83,607,897	59,928,398	13,322,554	6,091,962	4,207,753	36,698	20,532
NET PLANT IN SERVICE		203,909,989	140,084,522	35,131,228	16,885,969	11,644,650	105,691	57,929
ADDITIONS & DEDUCTIONS								
CASH WORKING CAPITAL		1,568	1,091	264	125	86	1	0
MATERIALS & SUPPIES		2,010,788	1,398,813	338,867	160,699	110,866	996	549
PREPAYMENTS		352,564	245,263	59,416	28,176	19,439	175	96
CUSTOMER ADVANCES FOR CONSTRUCTION		(11,235,876)	(7,816,280)	(1,893,519)	(897,952)	(619,494)	(5,564)	(3,066)
CUSTOMER DEPOSITS		(2,609,271)	(1,815,149)	(439,726)	(208,528)	(143,863)	(1,292)	(712)
OTHER		470,218	234,806	120,940	47,947	42,854	4,282	19,388
ACCUM DEFERRED INCOME TAXES		(10,606,875)	(7,378,713)	(1,787,517)	(847,683)	(584,814)	(5,253)	(2,895)
TOTAL ADDITIONS & DEDUCTIONS		(21,616,884)	(15,130,171)	(3,601,275)	(1,717,216)	(1,174,926)	(6,656)	13,361
TOTAL RATE BASE		$182,293,105	$124,954,351	$31,529,953	$15,168,753	$10,469,724	$99,034	$71,290
DEVELOPMENT OF RETURN								
OPERATING REVENUES								
SALES OF GAS TO ULTIMATE CUST		51,157,764	36,381,453	10,351,444	1,888,724	2,435,339	66,940	33,865
OTHER OPERATING REVENUES		1,744,743	1,525,144	146,391	40,350	30,336	633	1,889
TOTAL GAS OPERATING REVENUES		52,902,507	37,906,597	10,497,835	1,929,075	2,465,675	67,573	35,753
OPERATING EXPENSES								
OPER & MAINT EXPENSE		25,116,748	19,979,779	3,290,835	1,007,825	802,622	12,181	23,504
AMORTIZATION & DEPRECIATION EXP		8,240,005	6,043,745	1,262,380	542,363	386,207	3,393	1,917
TAXES OTHER THAN INCOME		4,342,079	3,076,211	709,027	326,518	227,175	2,024	1,124
TAX EXPENSE		3,603,671	1,849,989	1,624,236	(165,950)	274,754	17,980	2,662
TOTAL OPERATING EXPENSES		41,302,503	30,949,724	6,886,478	1,710,756	1,690,758	35,579	29,207
OPERATING INCOME		$11,600,005	$6,956,873	$3,611,357	$218,318	$774,916	$31,994	$6,546
RATE OF RETURN		6.36%	5.57%	11.45%	1.44%	7.40%	32.31%	9.18%
INDEX RATE OF RETURN		1.000	0.875	1.800	0.226	1.163	5.077	1.443

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	SUMMARY AT PRESENT RATES							
2								
3	DEVELOPMENT OF RATE BASE							
4	GAS PLANT IN SERVICE		$43,443,335	$5,010,447	$1,031,030	$21,946,902	$8,159,970	$7,692,433
5	DEPREC & AMORT RESERVE		11,919,046	1,403,507	346,354	5,745,608	2,169,321	2,038,433
6	NET PLANT IN SERVICE		31,524,289	3,606,939	684,675	16,201,293	5,990,649	5,654,000
7								
8	ADDITIONS & DEDUCTIONS							
9	CASH WORKING CAPITAL		237	27	6	120	45	42
10	MATERIALS & SUPPIES		303,826	35,041	7,211	153,488	57,068	53,798
11	PREPAYMENTS		53,272	6,144	1,264	26,912	10,006	9,433
12	CUSTOMER ADVANCES FOR CONSTRUCTION		(1,697,717)	(195,803)	(40,291)	(857,660)	(318,882)	(300,612)
13	CUSTOMER DEPOSITS		(394,255)	(45,471)	(9,357)	(199,172)	(74,053)	(69,810)
14	OTHER		105,211	15,729	1,989	45,958	18,561	24,293
15	ACCUM DEFERRED INCOME TAXES		(1,602,676)	(184,841)	(38,036)	(809,647)	(301,031)	(283,783)
16	TOTAL ADDITIONS & DEDUCTIONS		(3,232,102)	(369,173)	(77,215)	(1,640,001)	(608,287)	(566,639)
17								
18	TOTAL RATE BASE		$28,292,187	$3,237,766	$607,461	$14,561,293	$5,382,362	$5,087,362
19								
20	DEVELOPMENT OF RETURN							
21	OPERATING REVENUES							
22	SALES OF GAS TO ULTIMATE CUST		9,571,509	779,934	133,707	1,755,017	1,630,262	805,077
23	OTHER OPERATING REVENUES		137,318	9,073	2,119	38,231	16,700	13,636
24	TOTAL GAS OPERATING REVENUES		9,708,828	789,007	135,827	1,793,248	1,646,961	818,713
25								
26	OPERATING EXPENSES							
27	OPER & MAINT EXPENSE		3,047,425	243,411	33,475	974,351	456,349	346,273
28	AMORTIZATION & DEPRECIATION EXP		1,145,232	117,148	21,305	521,058	204,325	181,882
29	TAXES OTHER THAN INCOME		637,615	71,411	14,406	312,113	117,790	109,385
30	TAX EXPENSE		1,526,814	97,422	18,146	(184,096)	267,568	7,185
31	TOTAL OPERATING EXPENSES		6,357,086	529,392	87,331	1,623,425	1,046,033	644,726
32								
33	OPERATING INCOME		$3,351,742	$259,615	$48,496	$169,822	$600,929	$173,988
34								
35	RATE OF RETURN		11.85%	8.02%	7.98%	1.17%	11.16%	3.42%
36	INDEX RATE OF RETURN		1.862	1.260	1.255	0.183	1.755	0.537
37								
38								
39								
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42								
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44								
45								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

		ALLOC	RESIDENTIAL: RESIDENTIAL SERVICE (14)	RESIDENTIAL: CARES (15)	COMMERCIAL: SM. VOL. (16)	COMMERCIAL: LG. VOL. (17)	COMMERCIAL: TRANS-PORTATION (18)
1	SUMMARY AT PRESENT RATES						
2							
3	DEVELOPMENT OF RATE BASE						
4	GAS PLANT IN SERVICE		$189,665,466	$10,347,454	$43,443,335	$1,831,735	$3,178,712
5	DEPREC & AMORT RESERVE		56,812,438	3,115,959	11,919,046	535,343	868,165
6	NET PLANT IN SERVICE		132,853,027	7,231,495	31,524,289	1,296,392	2,310,547
7							
8	ADDITIONS & DEDUCTIONS						
9	CASH WORKING CAPITAL		1,034	56	237	10	17
10	MATERIALS & SUPPIES		1,326,447	72,366	303,826	12,810	22,231
11	PREPAYMENTS		232,574	12,688	53,272	2,246	3,898
12	CUSTOMER ADVANCES FOR CONSTRUCTION		(7,411,913)	(404,367)	(1,697,717)	(71,582)	(124,220)
13	CUSTOMER DEPOSITS		(1,721,245)	(93,905)	(394,255)	(16,623)	(28,847)
14	OTHER		223,269	11,537	105,211	4,807	10,922
15	ACCUM DEFERRED INCOME TAXES		(6,996,983)	(381,730)	(1,602,676)	(67,575)	(117,266)
16	TOTAL ADDITIONS & DEDUCTIONS		(14,346,817)	(783,354)	(3,232,102)	(135,907)	(233,266)
17							
18	TOTAL RATE BASE		$118,506,210	$6,448,141	$28,292,187	$1,160,485	$2,077,281
19							
20	DEVELOPMENT OF RETURN						
21	OPERATING REVENUES						
22	SALES OF GAS TO ULTIMATE CUST		35,003,749	1,377,705	9,571,509	246,710	533,224
23	OTHER OPERATING REVENUES		1,444,139	81,005	137,318	3,593	5,480
24	TOTAL GAS OPERATING REVENUES		36,447,887	1,458,710	9,708,828	250,303	538,704
25							
26	OPERATING EXPENSES						
27	OPER & MAINT EXPENSE		18,951,733	1,028,046	3,047,425	84,990	158,421
28	AMORTIZATION & DEPRECIATION EXP		5,728,693	315,051	1,145,232	42,422	74,727
29	TAXES OTHER THAN INCOME		2,916,631	159,579	637,615	26,142	45,269
30	TAX EXPENSE		1,945,972	(95,983)	1,526,814	22,926	74,496
31	TOTAL OPERATING EXPENSES		29,543,030	1,406,695	6,357,086	176,479	352,913
32							
33	OPERATING INCOME		$6,904,858	$52,015	$3,351,742	$73,824	$185,791
34							
35	RATE OF RETURN		5.83%	0.81%	11.85%	6.36%	8.94%
36	INDEX RATE OF RETURN		0.92	0.13	1.86	1.00	1.41
37							
38							
39							
40							
41							
42							
43							
44							
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	SUMMARY AT PRESENT RATES				
2					
3	DEVELOPMENT OF RATE BASE				
4	GAS PLANT IN SERVICE		$1,031,030	$1,343,714	$20,603,188
5	DEPREC & AMORT RESERVE		346,354	368,902	5,376,706
6	NET PLANT IN SERVICE		684,675	974,812	15,226,481
7					
8	ADDITIONS & DEDUCTIONS				
9	CASH WORKING CAPITAL		6	7	112
10	MATERIALS & SUPPIES		7,211	9,397	144,091
11	PREPAYMENTS		1,264	1,648	25,264
12	CUSTOMER ADVANCES FOR CONSTRUCTION		(40,291)	(52,511)	(805,149)
13	CUSTOMER DEPOSITS		(9,357)	(12,194)	(186,977)
14	OTHER		1,989	4,356	41,603
15	ACCUM DEFERRED INCOME TAXES		(38,036)	(49,571)	(760,076)
16	TOTAL ADDITIONS & DEDUCTIONS		(77,215)	(98,868)	(1,541,133)
17					
18	TOTAL RATE BASE		$607,461	$875,944	$13,685,349
19					
20	DEVELOPMENT OF RETURN				
21	OPERATING REVENUES				
22	SALES OF GAS TO ULTIMATE CUST		133,707	121,445	1,633,572
23	OTHER OPERATING REVENUES		2,119	2,711	35,521
24	TOTAL GAS OPERATING REVENUES		135,827	124,155	1,669,093
25					
26	OPERATING EXPENSES				
27	OPER & MAINT EXPENSE		33,475	56,760	917,590
28	AMORTIZATION & DEPRECIATION EXP		21,305	31,577	489,481
29	TAXES OTHER THAN INCOME		14,406	19,137	292,975
30	TAX EXPENSE		18,146	(4,338)	(179,758)
31	TOTAL OPERATING EXPENSES		87,331	103,137	1,520,289
32					
33	OPERATING INCOME		$48,496	$21,018	$148,804
34					
35	RATE OF RETURN		7.98%	2.40%	1.09%
36	INDEX RATE OF RETURN		1.25	0.38	0.17
37					
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

		ALLOC	PUBLIC AUTHORITY SM. VOL. (22)	PUBLIC AUTHORITY LG. VOL. (23)	PUBLIC AUTHORITY TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	SUMMARY AT PRESENT RATES						
2							
3	DEVELOPMENT OF RATE BASE						
4	GAS PLANT IN SERVICE		$8,159,970	$1,534,126	$6,158,307	$142,389	$78,461
5	DEPREC & AMORT RESERVE		2,169,321	415,541	1,622,891	36,698	20,532
6	NET PLANT IN SERVICE		5,990,649	1,118,585	4,535,416	105,691	57,929
7							
8	ADDITIONS & DEDUCTIONS						
9	CASH WORKING CAPITAL		45	8	34	1	0
10	MATERIALS & SUPPIES		57,068	10,729	43,069	996	549
11	PREPAYMENTS		10,006	1,881	7,552	175	96
12	CUSTOMER ADVANCES FOR CONSTRUCTION		(318,882)	(59,952)	(240,660)	(5,564)	(3,066)
13	CUSTOMER DEPOSITS		(74,053)	(13,922)	(55,888)	(1,292)	(712)
14	OTHER		18,561	4,135	20,159	4,282	19,388
15	ACCUM DEFERRED INCOME TAXES		(301,031)	(56,596)	(227,187)	(5,253)	(2,895)
16	TOTAL ADDITIONS & DEDUCTIONS		(608,287)	(113,717)	(452,922)	(6,656)	13,361
17							
18	TOTAL RATE BASE		$5,382,362	$1,004,868	$4,082,494	$99,034	$71,290
19							
20	DEVELOPMENT OF RETURN						
21	OPERATING REVENUES						
22	SALES OF GAS TO ULTIMATE CUST		1,630,262	148,817	656,260	66,940	33,865
23	OTHER OPERATING REVENUES		16,700	3,019	10,617	633	1,889
24	TOTAL GAS OPERATING REVENUES		1,646,961	151,836	666,877	67,573	35,753
25							
26	OPERATING EXPENSES						
27	OPER & MAINT EXPENSE		456,349	60,353	285,920	12,181	23,504
28	AMORTIZATION & DEPRECIATION EXP		204,325	35,733	146,149	3,393	1,917
29	TAXES OTHER THAN INCOME		117,790	21,744	87,641	2,024	1,124
30	TAX EXPENSE		267,568	736	6,450	17,980	2,662
31	TOTAL OPERATING EXPENSES		1,046,033	118,565	526,160	35,579	29,207
32							
33	OPERATING INCOME		$600,929	$33,271	$140,717	$31,994	$6,546
34							
35	RATE OF RETURN		11.16%	3.31%	3.45%	32.31%	9.18%
36	INDEX RATE OF RETURN		1.75	0.52	0.54	5.08	1.44
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	EQUALIZED RETURN AT PROPOSED ROR								
2									
3	UNADJUSTED RATE BASE		$182,293,105	$124,954,351	$31,529,953	$15,168,753	$10,469,724	$99,034	$71,290
4	CHANGE IN WC - PLANT	PLANT	0	0	0	0	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0	0	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0	0	0	0	0
7	ADJUSTED RATE BASE		182,293,105	124,954,351	31,529,953	15,168,753	10,469,724	99,034	71,290
8	RATE OF RETURN ON RATE BASE		9.54%	9.54%	9.54%	9.54%	9.54%	9.54%	9.54%
9	RETURN		17,393,036	11,922,203	3,008,351	1,447,288	998,942	9,449	6,802
10									
11	OPERATING EXPENSES								
12	PRESENT OPER & MAINT EXPENSE		25,116,748	19,979,779	3,290,835	1,007,825	802,622	12,181	23,504
13	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0	0	0	0	0
15	TOTAL O&M AT PROPOSED		25,116,748	19,979,779	3,290,835	1,007,825	802,622	12,181	23,504
16	AMORTIZATION & DEPRECIATION EXP		8,240,005	6,043,745	1,262,380	542,363	386,207	3,393	1,917
17	TAXES OTHER THAN INCOME		4,342,079	3,076,211	709,027	326,518	227,175	2,024	1,124
18	TAX EXPENSE		7,291,517	5,032,091	1,255,785	584,979	411,639	4,205	2,819
19	TOTAL OPERATING EXPENSES		44,990,348	34,131,826	6,518,027	2,461,685	1,827,643	21,803	29,364
20									
21	COST OF SERVICE		$62,383,384	$46,054,029	$9,526,378	$3,908,973	$2,826,586	$31,252	$36,166
22									
23	PROPOSED REVENUE @ EQUALIZED ROR								
24	FIRM SALES OF GAS		60,638,641	44,503,160	9,357,489	3,904,239	2,808,179	31,233	34,341
25	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0	0	0	0	0
29	TOTAL SALES OF GAS		60,638,641	44,503,160	9,357,489	3,904,239	2,808,179	31,233	34,341
30									
31	OTHER OPERATING REVENUES								
32	FORFEITED DISCOUNTS	FORFDISC	495,690	367,395	109,583	1,538	15,360	0	1,814
33	MISCELLANEOUS SERVICE REV	CUST487B	1,211,079	1,157,058	52,906	162	953	0	0
34	OTHER REVENUE	PLANT	37,974	26,417	6,400	3,035	2,094	19	10
35	OTHER REVENUE	PLANT	0	0	0	0	0	0	0
36	OTHER REVENUE	PLANT	0	0	0	0	0	0	0
37	TOTAL OTHER OPERATING REV		1,744,743	1,550,869	168,889	4,734	18,407	19	1,825
38									
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$62,383,384	$46,054,029	$9,526,378	$3,908,973	$2,826,586	$31,252	$36,166
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

		ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	EQUALIZED RETURN AT PROPOSED ROR							
2								
3	UNADJUSTED RATE BASE		$28,292,187	$3,237,766	$607,461	$14,561,293	$5,382,362	$5,087,362
4	CHANGE IN WC - PLANT	PLANT	0	0	0	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0	0	0	0
7	ADJUSTED RATE BASE		28,292,187	3,237,766	607,461	14,561,293	5,382,362	5,087,362
8	RATE OF RETURN ON RATE BASE		9.54%	9.54%	9.54%	9.54%	9.54%	9.54%
9	RETURN		2,699,427	308,923	57,959	1,389,329	513,544	485,398
10								
11	OPERATING EXPENSES							
12	PRESENT OPER & MAINT EXPENSE		3,047,425	243,411	33,475	974,351	456,349	346,273
13	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0	0	0	0
15	TOTAL O&M AT PROPOSED		3,047,425	243,411	33,475	974,351	456,349	346,273
16	AMORTIZATION & DEPRECIATION EXP		1,145,232	117,148	21,305	521,058	204,325	181,882
17	TAXES OTHER THAN INCOME		637,615	71,411	14,406	312,113	117,790	109,385
18	TAX EXPENSE		1,128,235	127,550	23,928	561,051	214,174	197,464
19	TOTAL OPERATING EXPENSES		5,958,506	559,521	93,113	2,368,572	992,639	835,004
20								
21	COST OF SERVICE		$8,657,934	$868,444	$151,073	$3,757,901	$1,506,183	$1,320,402
22								
23	PROPOSED REVENUE @ EQUALIZED ROR							
24	FIRM SALES OF GAS		8,490,377	867,112	150,069	3,754,170	1,488,864	1,319,314
25	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0	0	0	0
29	TOTAL SALES OF GAS		8,490,377	867,112	150,069	3,754,170	1,488,864	1,319,314
30								
31	OTHER OPERATING REVENUES							
32	FORFEITED DISCOUNTS	FORFDISC	108,913	670	706	832	15,288	72
33	MISCELLANEOUS SERVICE REV	CUST487B	52,906	0	162	0	953	0
34	OTHER REVENUE	PLANT	5,738	662	136	2,899	1,078	1,016
35	OTHER REVENUE	PLANT	0	0	0	0	0	0
36	OTHER REVENUE	PLANT	0	0	0	0	0	0
37	TOTAL OTHER OPERATING REV		167,557	1,332	1,004	3,731	17,319	1,088
38								
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$8,657,934	$868,444	$151,073	$3,757,901	$1,506,183	$1,320,402

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	EQUALIZED RETURN AT PROPOSED ROR						
2							
3	UNADJUSTED RATE BASE		$118,506,210	$6,448,141	$28,292,187	$1,160,485	$2,077,281
4	CHANGE IN WC - PLANT	PLANT	0	0	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0	0	0
7	ADJUSTED RATE BASE		118,506,210	6,448,141	28,292,187	1,160,485	2,077,281
8	RATE OF RETURN ON RATE BASE		0.0954	0.0954	0.0954	0.0954	0.0954
9	RETURN		11,306,970	615,233	2,699,427	110,725	198,199
10							
11	OPERATING EXPENSES						
12	PRESENT OPER & MAINT EXPENSE		18,951,733	1,028,046	3,047,425	84,990	158,421
13	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0	0	0
15	TOTAL O&M AT PROPOSED		18,951,733	1,028,046	3,047,425	84,990	158,421
16	AMORTIZATION & DEPRECIATION EXP		5,728,693	315,051	1,145,232	42,422	74,727
17	TAXES OTHER THAN INCOME		2,916,631	159,579	637,615	26,142	45,269
18	TAX EXPENSE		4,783,934.6	248,156	1,128,235	45,473	82,077
19	TOTAL OPERATING EXPENSES		32,380,992	1,750,833	5,958,506	199,026	360,494
20							
21	COST OF SERVICE		$43,687,963	$2,366,066	$8,657,934	$309,751	$558,693
22							
23	PROPOSED REVENUE @ EQUALIZED ROR						
24	FIRM SALES OF GAS		42,220,170	2,282,989	8,490,377	309,375	557,737
25	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0	0	0
29	TOTAL SALES OF GAS		42,220,170	2,282,989	8,490,377	309,375	557,737
30							
31	OTHER OPERATING REVENUES						
32	FORFEITED DISCOUNTS	FORFDISC	347,702	19,692	108,913	134	536
33	MISCELLANEOUS SERVICE REV	CUST487B	1,095,040	62,018	52,906	0	0
34	OTHER REVENUE	PLANT	25,050	1,367	5,738	242	420
35	OTHER REVENUE	PLANT	0	0	0	0	0
36	OTHER REVENUE	PLANT	0	0	0	0	0
37	TOTAL OTHER OPERATING REV		1,467,792	83,077	167,557	376	956
38							
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$43,687,963	$2,366,066	$8,657,934	$309,751	$558,693
40							
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	EQUALIZED RETURN AT PROPOSED ROR				
2					
3	UNADJUSTED RATE BASE		$607,461	$875,944	$13,685,349
4	CHANGE IN WC - PLANT	PLANT	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0
7	ADJUSTED RATE BASE		607,461	875,944	13,685,349
8	RATE OF RETURN ON RATE BASE		0.0954	0.0954	0.0954
9	RETURN		57,959	83,576	1,305,753
10					
11	OPERATING EXPENSES				
12	PRESENT OPER & MAINT EXPENSE		33,475	56,760	917,590
13	CHANGE IN GAS COSTS	GASSALES	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0
15	TOTAL O&M AT PROPOSED		33,475	56,760	917,590
16	AMORTIZATION & DEPRECIATION EXP		21,305	31,577	489,481
17	TAXES OTHER THAN INCOME		14,406	19,137	292,975
18	TAX EXPENSE		23,928	33,887	527,164
19	TOTAL OPERATING EXPENSES		93,113	141,361	2,227,211
20					
21	COST OF SERVICE		$151,073	$224,937	$3,532,964
22					
23	PROPOSED REVENUE @ EQUALIZED ROR				
24	FIRM SALES OF GAS		150,069	224,583	3,529,587
25	INTERR SALES GAS COST REV	GASSALES	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0
29	TOTAL SALES OF GAS		150,069	224,583	3,529,587
30					
31	OTHER OPERATING REVENUES				
32	FORFEITED DISCOUNTS	FORFDISC	706	176	655
33	MISCELLANEOUS SERVICE REV	CUST487B	162	0	0
34	OTHER REVENUE	PLANT	136	177	2,721
35	OTHER REVENUE	PLANT	0	0	0
36	OTHER REVENUE	PLANT	0	0	0
37	TOTAL OTHER OPERATING REV		1,004	354	3,377
38					
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$151,073	$224,937	$3,532,964
40					
41					
42					
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44					
45					

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	EQUALIZED RETURN AT PROPOSED ROR						
2							
3	UNADJUSTED RATE BASE		$5,382,362	$1,004,868	$4,082,494	$99,034	$71,290
4	CHANGE IN WC - PLANT	PLANT	0	0	0	0	0
5	CHANGE IN WC - COMMODITY	WCGC	0	0	0	0	0
6	CHANGE IN WC - O&M	WCOTH	0	0	0	0	0
7	ADJUSTED RATE BASE		5,382,362	1,004,868	4,082,494	99,034	71,290
8	RATE OF RETURN ON RATE BASE		0.0954	0.0954	0.0954	0.0954	0.0954
9	RETURN		513,544	95,877	389,521	9,449	6,802
10							
11	OPERATING EXPENSES						
12	PRESENT OPER & MAINT EXPENSE		456,349	60,353	285,920	12,181	23,504
13	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0
14	INCREASE IN UNCOLLECTIBLES	REVCHGC	0	0	0	0	0
15	TOTAL O&M AT PROPOSED		456,349	60,353	285,920	12,181	23,504
16	AMORTIZATION & DEPRECIATION EXP		204,325	35,733	146,149	3,393	1,917
17	TAXES OTHER THAN INCOME		117,790	21,744	87,641	2,024	1,124
18	TAX EXPENSE		214,174	38,990	158,474	4,205	2,819
19	TOTAL OPERATING EXPENSES		992,639	156,819	678,185	21,803	29,364
20							
21	COST OF SERVICE		$1,506,183	$252,696	$1,067,706	$31,252	$36,166
22							
23	PROPOSED REVENUE @ EQUALIZED ROR						
24	FIRM SALES OF GAS		1,488,864	252,422	1,066,892	31,233	34,341
25	INTERR SALES GAS COST REV	GASSALES	0	0	0	0	0
26	INTERR SALES PROFIT MARGINS	DEMGAS	0	0	0	0	0
27	INTERRUPTIBLE TRANSPORTATION	DISTR	0	0	0	0	0
28	SALES FOR RESALE	DEMGAS	0	0	0	0	0
29	TOTAL SALES OF GAS		1,488,864	252,422	1,066,892	31,233	34,341
30							
31	OTHER OPERATING REVENUES						
32	FORFEITED DISCOUNTS	FORFDISC	15,288	72	0	0	1,814
33	MISCELLANEOUS SERVICE REV	CUST487B	953	0	0	0	0
34	OTHER REVENUE	PLANT	1,078	203	813	19	10
35	OTHER REVENUE	PLANT	0	0	0	0	0
36	OTHER REVENUE	PLANT	0	0	0	0	0
37	TOTAL OTHER OPERATING REV		17,319	274	813	19	1,825
38							
39	TOTAL PROPOSED REVENUE @ EQUALIZED ROR		$1,506,183	$252,696	$1,067,706	$31,252	$36,166
40							
41							
42							
43							
44							
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	RETURN AT PROPOSED RATES								
2									
3	SALES REVENUE								
4	FIRM SALES OF GAS		60,638,641	43,056,622	12,325,450	2,236,785	2,899,755	79,706	40,322
5	INTERR SALES GAS COST REV		0	0	0	0	0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0	0	0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0	0	0	0	0
8	SALES FOR RESALE		0	0	0	0	0	0	0
9	TOTAL SALES OF GAS		60,638,641	43,056,622	12,325,450	2,236,785	2,899,755	79,706	40,322
10									
11	OTHER OPERATING REVENUES								
12	FORFEITED DISCOUNTS		495,690	367,395	109,583	1,538	15,360	0	1,814
13	MISCELLANEOUS SERVICE REV		1,211,079	1,157,058	52,906	162	953	0	0
14	OTHER REVENUE		37,974	26,417	6,400	3,035	2,094	19	10
15	OTHER REVENUE		0	0	0	0	0	0	0
16	OTHER REVENUE		0	0	0	0	0	0	0
17	TOTAL OTHER OPERATING REV		1,744,743	1,550,869	168,889	4,734	18,407	19	1,825
18									
19	TOTAL GAS OPERATING REVENUE		$62,383,384	$44,607,492	$12,494,339	$2,241,519	$2,918,162	$79,725	$42,147
20									
21	OPERATING EXPENSES								
22	OPERATION & MAINT EXPENSE		$25,116,748	$19,979,779	$3,290,835	$1,007,825	$802,622	$12,181	$23,504
23	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0	0	0	0	0
25	TOTAL O&M AT PROPOSED		25,116,748	19,979,779	3,290,835	1,007,825	802,622	12,181	23,504
26	AMORTIZATION & DEPRECIATION EXP		8,240,005	6,043,745	1,262,380	542,363	386,207	3,393	1,917
27	TAXES OTHER THAN INCOME		4,342,079	3,076,211	709,027	326,518	227,175	2,024	1,124
28	TAX EXPENSE		7,291,517	5,032,091	1,255,785	584,979	411,639	4,205	2,819
29	TOTAL OPERATING EXPENSES		$44,990,348	$34,131,826	$6,518,027	$2,461,685	$1,827,643	$21,803	$29,364
30									
31	RETURN AT PROPOSED RATES		$17,393,035	$10,475,666	$5,976,312	($220,166)	$1,090,518	$57,921	$12,783
32									
33	RATE OF RETURN		9.54%	8.38%	18.95%	-1.45%	10.42%	58.49%	17.93%
34	INDEX RATE OF RETURN		1.000	0.879	1.987	-0.152	1.092	6.130	1.879
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	RETURN AT PROPOSED RATES							
2								
3	SALES REVENUE							
4	FIRM SALES OF GAS		11,396,784	928,667	159,205	2,077,580	1,941,150	958,604
5	INTERR SALES GAS COST REV		0	0	0	0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0	0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0	0	0	0
8	SALES FOR RESALE		0	0	0	0	0	0
9	TOTAL SALES OF GAS		11,396,784	928,667	159,205	2,077,580	1,941,150	958,604
10								
11	OTHER OPERATING REVENUES							
12	FORFEITED DISCOUNTS		108,913	670	706	832	15,288	72
13	MISCELLANEOUS SERVICE REV		52,906	0	162	0	953	0
14	OTHER REVENUE		5,738	662	136	2,899	1,078	1,016
15	OTHER REVENUE		0	0	0	0	0	0
16	OTHER REVENUE		0	0	0	0	0	0
17	TOTAL OTHER OPERATING REV		167,557	1,332	1,004	3,731	17,319	1,088
18								
19	TOTAL GAS OPERATING REVENUE		$11,564,341	$929,999	$160,209	$2,081,310	$1,958,469	$959,692
20								
21	OPERATING EXPENSES							
22	OPERATION & MAINT EXPENSE		$3,047,425	$243,411	$33,475	$974,351	$456,349	$346,273
23	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0	0	0	0
25	TOTAL O&M AT PROPOSED		3,047,425	243,411	33,475	974,351	456,349	346,273
26	AMORTIZATION & DEPRECIATION EXP		1,145,232	117,148	21,305	521,058	204,325	181,882
27	TAXES OTHER THAN INCOME		637,615	71,411	14,406	312,113	117,790	109,385
28	TAX EXPENSE		1,128,235	127,550	23,928	561,051	214,174	197,464
29	TOTAL OPERATING EXPENSES		$5,958,506	$559,521	$93,113	$2,368,572	$992,639	$835,004
30								
31	RETURN AT PROPOSED RATES		$5,605,834	$370,478	$67,096	($287,261)	$965,831	$124,688
32								
33	RATE OF RETURN		19.81%	11.44%	11.05%	-1.97%	17.94%	2.45%
34	INDEX RATE OF RETURN		2.077	1.199	1.158	-0.207	1.881	0.257
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

		ALLOC	RESIDENTIAL		COMMERCIAL		
			RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	RETURN AT PROPOSED RATES						
2							
3	SALES REVENUE						
4	FIRM SALES OF GAS		41,678,918	1,377,705	11,396,784	292,581	636,086
5	INTERR SALES GAS COST REV		0	0	0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0	0	0
8	SALES FOR RESALE		0	0	0	0	0
9	TOTAL SALES OF GAS		41,678,918	1,377,705	11,396,784	292,581	636,086
10							
11	OTHER OPERATING REVENUES						
12	FORFEITED DISCOUNTS		347,702	19,692	108,913	134	536
13	MISCELLANEOUS SERVICE REV		1,095,040	62,018	52,906	0	0
14	OTHER REVENUE		25,050	1,367	5,738	242	420
15	OTHER REVENUE		0	0	0	0	0
16	OTHER REVENUE		0	0	0	0	0
17	TOTAL OTHER OPERATING REV		1,467,792	83,077	167,557	376	956
18							
19	TOTAL GAS OPERATING REVENUE		$43,146,710	$1,460,782	$11,564,341	$292,957	$637,042
20							
21	OPERATING EXPENSES						
22	OPERATION & MAINT EXPENSE		$18,951,733	$1,028,046	$3,047,425	$84,990	$158,421
23	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0	0	0
25	TOTAL O&M AT PROPOSED		18,951,733	1,028,046	3,047,425	84,990	158,421
26	AMORTIZATION & DEPRECIATION EXP		5,728,693	315,051	1,145,232	42,422	74,727
27	TAXES OTHER THAN INCOME		2,916,631	159,579	637,615	26,142	45,269
28	TAX EXPENSE		4,783,935	248,156	1,128,235	45,473	82,077
29	TOTAL OPERATING EXPENSES		$32,380,992	$1,750,833	$5,958,506	$199,026	$360,494
30							
31	RETURN AT PROPOSED RATES		10,765,718	(290,052)	5,605,834	93,930	276,548
32							
33	RATE OF RETURN		9.08%	-4.50%	19.81%	8.09%	13.31%
34	INDEX RATE OF RETURN		95.21%	-47.15%	207.67%	84.83%	139.53%
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UNS GAS COMPANY
COST OF SERVICE STUDY
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			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	RETURN AT PROPOSED RATES				
2					
3	SALES REVENUE				
4	FIRM SALES OF GAS		159,205	144,048	1,933,532
5	INTERR SALES GAS COST REV		0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0
8	SALES FOR RESALE		0	0	0
9	TOTAL SALES OF GAS		159,205	144,048	1,933,532
10					
11	OTHER OPERATING REVENUES				
12	FORFEITED DISCOUNTS		706	176	655
13	MISCELLANEOUS SERVICE REV		162	0	0
14	OTHER REVENUE		136	177	2,721
15	OTHER REVENUE		0	0	0
16	OTHER REVENUE		0	0	0
17	TOTAL OTHER OPERATING REV		1,004	354	3,377
18					
19	TOTAL GAS OPERATING REVENUE		$160,209	$144,402	$1,936,909
20					
21	OPERATING EXPENSES				
22	OPERATION & MAINT EXPENSE		$33,475	$56,760	$917,590
23	CHANGE IN GAS COSTS	GASSALES	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0
25	TOTAL O&M AT PROPOSED		33,475	56,760	917,590
26	AMORTIZATION & DEPRECIATION EXP		21,305	31,577	489,481
27	TAXES OTHER THAN INCOME		14,406	19,137	292,975
28	TAX EXPENSE		23,928	33,887	527,164
29	TOTAL OPERATING EXPENSES		$93,113	$141,361	$2,227,211
30					
31	RETURN AT PROPOSED RATES		67,096	3,040	(290,302)
32					
33	RATE OF RETURN		11.05%	0.35%	-2.12%
34	INDEX RATE OF RETURN		115.76%	3.64%	-22.23%
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	RETURN AT PROPOSED RATES						
2							
3	SALES REVENUE						
4	FIRM SALES OF GAS		1,941,150	176,749	781,855	79,706	40,322
5	INTERR SALES GAS COST REV		0	0	0	0	0
6	INTERR SALES PROFIT MARGINS		0	0	0	0	0
7	INTERRUPTIBLE TRANSPORTATION		0	0	0	0	0
8	SALES FOR RESALE		0	0	0	0	0
9	TOTAL SALES OF GAS		1,941,150	176,749	781,855	79,706	40,322
10							
11	OTHER OPERATING REVENUES						
12	FORFEITED DISCOUNTS		15,288	72	0	0	1,814
13	MISCELLANEOUS SERVICE REV		953	0	0	0	0
14	OTHER REVENUE		1,078	203	813	19	10
15	OTHER REVENUE		0	0	0	0	0
16	OTHER REVENUE		0	0	0	0	0
17	TOTAL OTHER OPERATING REV		17,319	274	813	19	1,825
18							
19	TOTAL GAS OPERATING REVENUE		$1,958,469	$177,024	$782,669	$79,725	$42,147
20							
21	OPERATING EXPENSES						
22	OPERATION & MAINT EXPENSE		$456,349	$60,353	$285,920	$12,181	$23,504
23	CHANGE IN GAS COSTS	GASSALES	0	0	0	0	0
24	INCREASE IN UNCOLLECTIBLES	REVCHGP	0	0	0	0	0
25	TOTAL O&M AT PROPOSED		456,349	60,353	285,920	12,181	23,504
26	AMORTIZATION & DEPRECIATION EXP		204,325	35,733	146,149	3,393	1,917
27	TAXES OTHER THAN INCOME		117,790	21,744	87,641	2,024	1,124
28	TAX EXPENSE		214,174	38,990	158,474	4,205	2,819
29	TOTAL OPERATING EXPENSES		$992,639	$156,819	$678,185	$21,803	$29,364
30							
31	RETURN AT PROPOSED RATES		965,831	20,204	104,484	57,921	12,783
32							
33	RATE OF RETURN		17.94%	2.01%	2.56%	58.49%	17.93%
34	INDEX RATE OF RETURN		188.07%	21.07%	26.82%	612.98%	187.93%
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UNS GAS COMPANY
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		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVELOPMENT OF RATE BASE								
2									
3	**GAS PLANT IN SERVICE**								
4									
5	INTANGIBLE PLANT								
6	302-FRANCHISES & CONSENTS	LABOR	$362,992	$295,006	$43,810	$13,369	$10,672	$83	$52
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(36,464)	(29,635)	(4,401)	(1,343)	(1,072)	(8)	(5)
8	303-MISC. INTANGIBLE PLANT	LABOR	777,500	631,879	93,837	28,635	22,858	178	112
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(36,142)	(29,373)	(4,362)	(1,331)	(1,063)	(8)	(5)
10	TOTAL INTANGIBLE PLANT		1,067,886	867,877	128,885	39,330	31,395	245	154
11									
12	TRANSMISSION PLANT								
13	365-LAND & LAND RIGHTS	TRANS	86,073	47,032	19,874	11,449	7,606	73	38
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(15,425)	(8,429)	(3,562)	(2,052)	(1,363)	(13)	(7)
15	366-STRUCTURES & IMPROVEMENTS	TRANS	15,792	8,629	3,646	2,101	1,395	13	7
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(2,352)	(1,285)	(543)	(313)	(208)	(2)	(1)
17	367-MAINS	TRANS	17,486,880	9,555,200	4,037,689	2,325,989	1,545,269	14,924	7,808
18	367-MAINS - ACQ ADJ	TRANS	(1,604,647)	(876,813)	(370,510)	(213,440)	(141,798)	(1,370)	(716)
19	369-MEASURING & REG STATION EQUIP.	TRANS	792,065	432,801	182,886	105,355	69,993	676	354
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(424,444)	(231,925)	(98,003)	(56,457)	(37,507)	(362)	(190)
21	371-OTHER EQUIPMENT	TRANS	0	0	0	0	0	0	0
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(24,187)	(13,216)	(5,585)	(3,217)	(2,137)	(21)	(11)
23	TOTAL TRANSMISSION PLANT		16,309,754	8,911,994	3,765,893	2,169,416	1,441,250	13,920	7,282
24									
25	DISTRIBUTION PLANT								
26	374-LAND & LAND RIGHTS	DISTR	241,754	132,100	55,821	32,157	21,363	206	108
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(38,784)	(21,193)	(8,955)	(5,159)	(3,427)	(33)	(17)
28	375-STRUCTURES & IMPROV	DISTR	10,258	5,605	2,369	1,365	907	9	5
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(247)	(135)	(57)	(33)	(22)	(0)	(0)
30	376-MAINS	DISTMAIN	157,127,396	85,857,725	36,280,434	20,900,047	13,884,933	134,102	70,155
31	376-MAINS - ACQ ADJ	DISTMAIN	(17,621,607)	(9,628,818)	(4,068,797)	(2,343,910)	(1,557,175)	(15,039)	(7,868)
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	2,344,082	1,280,856	541,244	311,794	207,140	2,001	1,047
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(188,503)	(103,002)	(43,525)	(25,073)	(16,657)	(161)	(84)
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	2,437,071	1,331,667	562,715	324,163	215,358	2,080	1,088
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(239,569)	(130,906)	(55,316)	(31,866)	(21,170)	(204)	(107)
36	380-SERVICES	CUST380	86,448,392	78,959,861	6,824,037	17,540	643,964	0	2,990
37	380-SERVICES - ACQ ADJ	CUST380	(6,640,413)	(6,065,192)	(524,179)	(1,347)	(49,465)	0	(230)
38	381-METERS	CUST381	13,780,226	12,484,937	1,130,574	45,126	119,116	0	473
39	381-METERS - ACQ ADJ	CUST381	(1,160,990)	(1,051,861)	(95,251)	(3,802)	(10,036)	0	(40)
40	382-METER INSTALLATIONS	CUST382	8,633,492	7,821,976	708,319	28,272	74,628	0	296
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(744,797)	(674,789)	(61,106)	(2,439)	(6,438)	0	(26)
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UNS GAS COMPANY
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			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE							
2								
3	**GAS PLANT IN SERVICE**							
4								
5	INTANGIBLE PLANT							
6	302-FRANCHISES & CONSENTS	LABOR	$40,722	$3,088	$429	$12,940	$6,140	$4,531
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(4,091)	(310)	(43)	(1,300)	(617)	(455)
8	303-MISC. INTANGIBLE PLANT	LABOR	87,222	6,615	920	27,716	13,152	9,706
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(4,055)	(307)	(43)	(1,288)	(611)	(451)
10	TOTAL INTANGIBLE PLANT		119,799	9,086	1,263	38,067	18,065	13,331
11								
12	TRANSMISSION PLANT							
13	365-LAND & LAND RIGHTS	TRANS	17,571	2,303	348	11,101	3,772	3,834
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(3,149)	(413)	(62)	(1,989)	(676)	(687)
15	366-STRUCTURES & IMPROVEMENTS	TRANS	3,224	422	64	2,037	692	703
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(480)	(63)	(10)	(303)	(103)	(105)
17	367-MAINS	TRANS	3,569,893	467,797	70,747	2,255,242	766,349	778,921
18	367-MAINS - ACQ ADJ	TRANS	(327,584)	(42,926)	(6,492)	(206,948)	(70,322)	(71,476)
19	369-MEASURING & REG STATION EQUIP.	TRANS	161,698	21,189	3,204	102,151	34,712	35,281
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(86,649)	(11,354)	(1,717)	(54,739)	(18,601)	(18,906)
21	371-OTHER EQUIPMENT	TRANS	0	0	0	0	0	0
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(4,938)	(647)	(98)	(3,119)	(1,060)	(1,077)
23	TOTAL TRANSMISSION PLANT		3,329,586	436,307	65,985	2,103,431	714,762	726,488
24								
25	DISTRIBUTION PLANT							
26	374-LAND & LAND RIGHTS	DISTR	49,353	6,467	978	31,178	10,595	10,768
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(7,918)	(1,038)	(157)	(5,002)	(1,700)	(1,728)
28	375-STRUCTURES & IMPROV	DISTR	2,094	274	42	1,323	450	457
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(50)	(7)	(1)	(32)	(11)	(11)
30	376-MAINS	DISTMAIN	32,077,073	4,203,361	635,693	20,264,354	6,885,984	6,998,949
31	376-MAINS - ACQ ADJ	DISTMAIN	(3,597,397)	(471,401)	(71,292)	(2,272,618)	(772,253)	(784,922)
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	478,537	62,707	9,483	302,311	102,728	104,413
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(38,482)	(5,043)	(763)	(24,311)	(8,261)	(8,397)
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	497,521	65,195	9,860	314,303	106,803	108,555
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(48,907)	(6,409)	(969)	(30,897)	(10,499)	(10,671)
36	380-SERVICES	CUST380	6,808,414	15,623	11,960	5,580	640,974	2,990
37	380-SERVICES - ACQ ADJ	CUST380	(522,979)	(1,200)	(919)	(429)	(49,236)	(230)
38	381-METERS	CUST381	1,076,530	54,044	1,891	43,235	101,349	17,767
39	381-METERS - ACQ ADJ	CUST381	(90,698)	(4,553)	(159)	(3,643)	(8,539)	(1,497)
40	382-METER INSTALLATIONS	CUST382	674,460	33,859	1,185	27,088	63,497	11,131
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(58,185)	(2,921)	(102)	(2,337)	(5,478)	(960)
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43								
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE						
2							
3	**GAS PLANT IN SERVICE**						
4							
5	INTANGIBLE PLANT						
6	302-FRANCHISES & CONSENTS	LABOR	$279,412	$15,594	$40,722	$1,160	$1,929
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(28,068)	(1,567)	(4,091)	(116)	(194)
8	303-MISC. INTANGIBLE PLANT	LABOR	598,477	33,402	87,222	2,484	4,131
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(27,820)	(1,553)	(4,055)	(115)	(192)
10	TOTAL INTANGIBLE PLANT		822,000	45,877	119,799	3,412	5,674
11							
12	TRANSMISSION PLANT						
13	365-LAND & LAND RIGHTS	TRANS	44,704	2,328	17,571	784	1,519
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(8,011)	(417)	(3,149)	(140)	(272)
15	366-STRUCTURES & IMPROVEMENTS	TRANS	8,202	427	3,224	144	279
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(1,222)	(64)	(480)	(21)	(42)
17	367-MAINS	TRANS	9,082,152	473,048	3,569,893	159,180	308,617
18	367-MAINS - ACQ ADJ	TRANS	(833,405)	(43,408)	(327,584)	(14,607)	(28,320)
19	369-MEASURING & REG STATION EQUIP.	TRANS	411,374	21,427	161,698	7,210	13,979
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(220,443)	(11,482)	(86,649)	(3,864)	(7,491)
21	371-OTHER EQUIPMENT	TRANS	0	0	0	0	0
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(12,562)	(654)	(4,938)	(220)	(427)
23	TOTAL TRANSMISSION PLANT		8,470,789	441,205	3,329,586	148,465	287,842
24							
25	DISTRIBUTION PLANT						
26	374-LAND & LAND RIGHTS	DISTR	125,560	6,540	49,353	2,201	4,267
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(20,143)	(1,049)	(7,918)	(353)	(684)
28	375-STRUCTURES & IMPROV	DISTR	5,328	278	2,094	93	181
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(128)	(7)	(50)	(2)	(4)
30	376-MAINS	DISTMAIN	81,607,175	4,250,551	32,077,073	1,430,304	2,773,057
31	376-MAINS - ACQ ADJ	DISTMAIN	(9,152,125)	(476,693)	(3,597,397)	(160,406)	(310,994)
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	1,217,445	63,411	478,537	21,338	41,369
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(97,903)	(5,099)	(38,482)	(1,716)	(3,327)
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	1,265,740	65,927	497,521	22,184	43,011
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(124,425)	(6,481)	(48,907)	(2,181)	(4,228)
36	380-SERVICES	CUST380	74,727,701	4,232,160	6,808,414	15,623	0
37	380-SERVICES - ACQ ADJ	CUST380	(5,740,105)	(325,088)	(522,979)	(1,200)	0
38	381-METERS	CUST381	11,815,759	669,179	1,076,530	30,265	23,779
39	381-METERS - ACQ ADJ	CUST381	(995,482)	(56,379)	(90,698)	(2,550)	(2,003)
40	382-METER INSTALLATIONS	CUST382	7,402,727	419,249	674,460	18,961	14,898
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(638,621)	(36,168)	(58,185)	(1,636)	(1,285)
42							
43							
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

	ALLOC	INDUSTRIAL SM. VOL. (19)	INDUSTRIAL LG. VOL. (20)	INDUSTRIAL TRANS-PORTATION (21)
DEVELOPMENT OF RATE BASE				
GAS PLANT IN SERVICE				
INTANGIBLE PLANT				
302-FRANCHISES & CONSENTS	LABOR	$429	$816	$12,123
302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(43)	(82)	(1,218)
303-MISC. INTANGIBLE PLANT	LABOR	920	1,749	25,967
303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(43)	(81)	(1,207)
TOTAL INTANGIBLE PLANT		1,263	2,402	35,665
TRANSMISSION PLANT				
365-LAND & LAND RIGHTS	TRANS	348	636	10,465
365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(62)	(114)	(1,875)
366-STRUCTURES & IMPROVEMENTS	TRANS	64	117	1,920
366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(10)	(17)	(286)
367-MAINS	TRANS	70,747	129,126	2,126,116
367-MAINS - ACQ ADJ	TRANS	(6,492)	(11,849)	(195,099)
369-MEASURING & REG STATION EQUIP.	TRANS	3,204	5,849	96,302
369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(1,717)	(3,134)	(51,605)
371-OTHER EQUIPMENT	TRANS	0	0	0
371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(98)	(179)	(2,941)
TOTAL TRANSMISSION PLANT		65,985	120,434	1,982,997
DISTRIBUTION PLANT				
374-LAND & LAND RIGHTS	DISTR	978	1,785	29,393
374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(157)	(286)	(4,716)
375-STRUCTURES & IMPROV	DISTR	42	76	1,247
375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(1)	(2)	(30)
376-MAINS	DISTMAIN	635,693	1,160,259	19,104,095
376-MAINS - ACQ ADJ	DISTMAIN	(71,292)	(130,121)	(2,142,496)
378-MEAS. & REG. EQUIP-GEN	DISTREG	9,483	17,309	285,002
378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(763)	(1,392)	(22,919)
379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	9,860	17,996	296,308
379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(969)	(1,769)	(29,128)
380-SERVICES	CUST380	11,960	5,580	0
380-SERVICES - ACQ ADJ	CUST380	(919)	(429)	0
381-METERS	CUST381	1,891	10,809	32,427
381-METERS - ACQ ADJ	CUST381	(159)	(911)	(2,732)
382-METER INSTALLATIONS	CUST382	1,185	6,772	20,316
382-METER INSTALLATIONS - ACQ ADJ	CUST382	(102)	(584)	(1,753)

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF RATE BASE						
2							
3	**GAS PLANT IN SERVICE**						
4							
5	INTANGIBLE PLANT						
6	302-FRANCHISES & CONSENTS	LABOR	$6,140	$852	$3,679	$83	$52
7	302-FRANCHISES & CONSENTS - ACQ ADJ	LABOR	(617)	(86)	(370)	(8)	(5)
8	303-MISC. INTANGIBLE PLANT	LABOR	13,152	1,825	7,881	178	112
9	303-MISC. INTANGIBLE PLANT - ACQ ADJ	LABOR	(611)	(85)	(366)	(8)	(5)
10	TOTAL INTANGIBLE PLANT		18,065	2,506	10,824	245	154
11							
12	TRANSMISSION PLANT						
13	365-LAND & LAND RIGHTS	TRANS	3,772	746	3,088	73	38
14	365-LAND & LAND RIGHTS - ACQ ADJ	TRANS	(676)	(134)	(553)	(13)	(7)
15	366-STRUCTURES & IMPROVEMENTS	TRANS	692	137	567	13	7
16	366-STRUCTURES & IMPROVE - ACQ ADJ	TRANS	(103)	(20)	(84)	(2)	(1)
17	367-MAINS	TRANS	766,349	151,478	627,443	14,924	7,808
18	367-MAINS - ACQ ADJ	TRANS	(70,322)	(13,900)	(57,576)	(1,370)	(716)
19	369-MEASURING & REG STATION EQUIP.	TRANS	34,712	6,861	28,420	676	354
20	369-MEAS & REG STA EQUIP - ACQ ADJ	TRANS	(18,601)	(3,677)	(15,229)	(362)	(190)
21	371-OTHER EQUIPMENT	TRANS	0	0	0	0	0
22	371-OTHER EQUIPMENT - ACQ ADJ	TRANS	(1,060)	(210)	(868)	(21)	(11)
23	TOTAL TRANSMISSION PLANT		714,762	141,281	585,207	13,920	7,282
24							
25	DISTRIBUTION PLANT						
26	374-LAND & LAND RIGHTS	DISTR	10,595	2,094	8,674	206	108
27	374-LAND & LAND RIGHTS - ACQ ADJ	DISTR	(1,700)	(336)	(1,392)	(33)	(17)
28	375-STRUCTURES & IMPROV	DISTR	450	89	368	9	5
29	375-STRUCTURES & IMPROV - ACQ ADJ	DISTR	(11)	(2)	(9)	(0)	(0)
30	376-MAINS	DISTMAIN	6,885,984	1,361,093	5,637,856	134,102	70,155
31	376-MAINS - ACQ ADJ	DISTMAIN	(772,253)	(152,645)	(632,277)	(15,039)	(7,868)
32	378-MEAS. & REG. EQUIP-GEN	DISTREG	102,728	20,305	84,108	2,001	1,047
33	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	DISTREG	(8,261)	(1,633)	(6,764)	(161)	(84)
34	379-MEAS. & REG. EQUIP-CITY GATE	DISTREG	106,803	21,111	87,444	2,080	1,088
35	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	DISTREG	(10,499)	(2,075)	(8,596)	(204)	(107)
36	380-SERVICES	CUST380	640,974	2,990	0	0	2,990
37	380-SERVICES - ACQ ADJ	CUST380	(49,236)	(230)	0	0	(230)
38	381-METERS	CUST381	101,349	473	17,294	0	473
39	381-METERS - ACQ ADJ	CUST381	(8,539)	(40)	(1,457)	0	(40)
40	382-METER INSTALLATIONS	CUST382	63,497	296	10,835	0	296
41	382-METER INSTALLATIONS - ACQ ADJ	CUST382	(5,478)	(26)	(935)	0	(26)
42							
43							
44							
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVELOPMENT OF RATE BASE								
2									
3	**GAS PLANT IN SERVICE CONTINUED**								
4									
5	DISTRIBUTION PLANT CONTINUED								
6	383-REGULATORS	CUST383	2,886,748	2,657,594	229,154	0	0	0	0
7	383-REGULATORS - ACQ ADJ	CUST383	(178,700)	(164,514)	(14,185)	0	0	0	0
8	384-REGULATOR INSTALLATIONS	CUST384	1,352,659	1,245,283	107,376	0	0	0	0
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	(82,263)	(75,733)	(6,530)	0	0	0	0
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	1,433,311	0	459,395	735,031	238,885	0	0
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	(106,448)	0	(34,118)	(54,589)	(17,741)	0	0
12	387-OTHER EQUIPMENT	DISTMAIN	1,069,684	584,498	246,988	142,282	94,525	913	478
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(146,048)	(79,803)	(33,722)	(19,426)	(12,906)	(125)	(65)
14	TOTAL DISTRIBUTION PLANT		250,616,704	174,366,155	42,202,683	20,050,133	13,805,781	123,748	68,203
15									
16	GENERAL PLANT								
17	389-LAND & LAND RIGHTS	LABOR	394,121	320,304	47,567	14,515	11,587	90	57
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(49,201)	(39,986)	(5,938)	(1,812)	(1,446)	(11)	(7)
19	390-STRUCTURES & IMPROVE	LABOR	5,345,351	4,344,197	645,137	196,869	157,149	1,226	772
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(123,017)	(99,977)	(14,847)	(4,531)	(3,617)	(28)	(18)
21	391-OFFICE FURN & EQUIPMENT	LABOR	2,102,879	1,709,022	253,799	77,449	61,823	482	304
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(643,851)	(523,261)	(77,707)	(23,713)	(18,929)	(148)	(93)
23	392-TRANSPORTATION EQUIP	LABOR	7,181,119	5,836,136	866,698	264,481	211,120	1,646	1,038
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(85,465)	(69,458)	(10,315)	(3,148)	(2,513)	(20)	(12)
25	393-STORES EQUIPMENT	LABOR	200,996	163,350	24,258	7,403	5,909	46	29
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(17,775)	(14,446)	(2,145)	(655)	(523)	(4)	(3)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	2,271,486	1,846,050	274,149	83,659	66,780	521	328
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(230,699)	(187,491)	(27,843)	(8,497)	(6,782)	(53)	(33)
29	395-LABORATORY EQUIPMENT	LABOR	786,828	639,460	94,963	28,979	23,132	180	114
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(78,875)	(64,102)	(9,520)	(2,905)	(2,319)	(18)	(11)
31	396-POWER OPERATED EQUIP	LABOR	1,279,076	1,039,513	154,373	47,108	37,604	293	185
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(5,511)	(4,479)	(665)	(203)	(162)	(1)	(1)
33	397-COMMUNICATION EQUIP	LABOR	1,101,825	895,460	132,981	40,580	32,393	253	159
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(153,703)	(124,915)	(18,551)	(5,661)	(4,519)	(35)	(22)
35	398-MISCELLANEOUS EQUIP	LABOR	277,567	225,580	33,500	10,223	8,160	64	40
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(29,611)	(24,065)	(3,574)	(1,091)	(871)	(7)	(4)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0	0	0	0	0
38	TOTAL GENERAL PLANT		19,523,542	15,866,894	2,356,321	719,052	573,977	4,476	2,821
39									
40	COMMON PLANT	LABOR	0	0	0	0	0	0	0
41									
42	TOTAL GAS PLANT IN SERVICE		287,517,886	200,012,920	48,453,782	22,977,931	15,852,403	142,389	78,461
43									
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(30,709,737)	(20,338,800)	(5,603,813)	(2,818,010)	(1,921,865)	(17,672)	(9,577)
45									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE							
2								
3	**GAS PLANT IN SERVICE CONTINUED**							
4								
5	DISTRIBUTION PLANT CONTINUED							
6	383-REGULATORS	CUST383	229,154	0	0	0	0	0
7	383-REGULATORS - ACQ ADJ	CUST383	(14,185)	0	0	0	0	0
8	384-REGULATOR INSTALLATIONS	CUST384	107,376	0	0	0	0	0
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	(6,530)	0	0	0	0	0
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	0	459,395	367,516	367,516	0	238,885
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	0	(34,118)	(27,294)	(27,294)	0	(17,741)
12	387-OTHER EQUIPMENT	DISTMAIN	218,373	28,615	4,328	137,955	46,878	47,647
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(29,815)	(3,907)	(591)	(18,835)	(6,400)	(6,505)
14	TOTAL DISTRIBUTION PLANT		37,803,738	4,398,945	940,688	19,109,445	7,096,880	6,708,900
15								
16	GENERAL PLANT							
17	389-LAND & LAND RIGHTS	LABOR	44,214	3,353	466	14,049	6,667	4,920
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(5,519)	(419)	(58)	(1,754)	(832)	(614)
19	390-STRUCTURES & IMPROVE	LABOR	599,658	45,479	6,323	190,546	90,423	66,727
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(13,800)	(1,047)	(146)	(4,385)	(2,081)	(1,536)
21	391-OFFICE FURN & EQUIPMENT	LABOR	235,908	17,892	2,487	74,962	35,573	26,250
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(72,229)	(5,478)	(762)	(22,951)	(10,891)	(8,037)
23	392-TRANSPORTATION EQUIP	LABOR	805,601	61,098	8,494	255,986	121,477	89,643
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(9,588)	(727)	(101)	(3,047)	(1,446)	(1,067)
25	393-STORES EQUIPMENT	LABOR	22,548	1,710	238	7,165	3,400	2,509
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(1,994)	(151)	(21)	(634)	(301)	(222)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	254,822	19,326	2,687	80,972	38,425	28,355
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(25,881)	(1,963)	(273)	(8,224)	(3,903)	(2,880)
29	395-LABORATORY EQUIPMENT	LABOR	88,269	6,694	931	28,048	13,310	9,822
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(8,848)	(671)	(93)	(2,812)	(1,334)	(985)
31	396-POWER OPERATED EQUIP	LABOR	143,491	10,883	1,513	45,595	21,637	15,967
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(618)	(47)	(7)	(196)	(93)	(69)
33	397-COMMUNICATION EQUIP	LABOR	123,606	9,374	1,303	39,277	18,639	13,754
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(17,243)	(1,308)	(182)	(5,479)	(2,600)	(1,919)
35	398-MISCELLANEOUS EQUIP	LABOR	31,138	2,362	328	9,894	4,695	3,465
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(3,322)	(252)	(35)	(1,056)	(501)	(370)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0	0	0	0
38	TOTAL GENERAL PLANT		2,190,212	166,109	23,094	695,958	330,263	243,714
39								
40	COMMON PLANT	LABOR	0	0	0	0	0	0
41								
42	TOTAL GAS PLANT IN SERVICE		43,443,335	5,010,447	1,031,030	21,946,902	8,159,970	7,692,433
43								
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(5,005,134)	(598,679)	(112,389)	(2,705,621)	(978,349)	(943,517)
45								

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE						
2							
3	**GAS PLANT IN SERVICE CONTINUED**						
4							
5	DISTRIBUTION PLANT CONTINUED						
6	383-REGULATORS	CUST383	2,515,150	142,444	229,154	0	0
7	383-REGULATORS - ACQ ADJ	CUST383	(155,697)	(8,818)	(14,185)	0	0
8	384-REGULATOR INSTALLATIONS	CUST384	1,178,537	66,746	107,376	0	0
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	(71,674)	(4,059)	(6,530)	0	0
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	0	0	0	257,261	202,134
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	0	0	0	(19,106)	(15,012)
12	387-OTHER EQUIPMENT	DISTMAIN	555,561	28,937	218,373	9,737	18,878
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(75,853)	(3,951)	(29,815)	(1,329)	(2,578)
14	TOTAL DISTRIBUTION PLANT		165,344,526	9,021,630	37,803,738	1,617,488	2,781,458
15							
16	GENERAL PLANT						
17	389-LAND & LAND RIGHTS	LABOR	303,373	16,932	44,214	1,259	2,094
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(37,872)	(2,114)	(5,519)	(157)	(261)
19	390-STRUCTURES & IMPROVE	LABOR	4,114,558	229,639	599,658	17,077	28,402
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(94,692)	(5,285)	(13,800)	(393)	(654)
21	391-OFFICE FURN & EQUIPMENT	LABOR	1,618,681	90,341	235,908	6,718	11,174
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(495,601)	(27,660)	(72,229)	(2,057)	(3,421)
23	392-TRANSPORTATION EQUIP	LABOR	5,527,632	308,505	805,601	22,941	38,157
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(65,786)	(3,672)	(9,588)	(273)	(454)
25	393-STORES EQUIPMENT	LABOR	154,715	8,635	22,548	642	1,068
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(13,682)	(764)	(1,994)	(57)	(94)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	1,748,465	97,584	254,822	7,257	12,069
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(177,580)	(9,911)	(25,881)	(737)	(1,226)
29	395-LABORATORY EQUIPMENT	LABOR	605,657	33,803	88,269	2,514	4,181
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(60,714)	(3,389)	(8,848)	(252)	(419)
31	396-POWER OPERATED EQUIP	LABOR	984,563	54,950	143,491	4,086	6,796
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(4,242)	(237)	(618)	(18)	(29)
33	397-COMMUNICATION EQUIP	LABOR	848,125	47,335	123,606	3,520	5,854
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(118,312)	(6,603)	(17,243)	(491)	(817)
35	398-MISCELLANEOUS EQUIP	LABOR	213,656	11,924	31,138	887	1,475
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(22,793)	(1,272)	(3,322)	(95)	(157)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0	0	0
38	TOTAL GENERAL PLANT		15,028,152	838,742	2,190,212	62,371	103,737
39							
40	COMMON PLANT	LABOR	0	0	0	0	0
41							
42	TOTAL GAS PLANT IN SERVICE		189,665,466	10,347,454	43,443,335	1,831,735	3,178,712
43							
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(19,294,959)	(1,043,841)	(5,005,134)	(214,093)	(384,586)
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			INDUSTRIAL		
		ALLOC	SM. VOL. (19)	LG. VOL. (20)	TRANS-PORTATION (21)
1	DEVELOPMENT OF RATE BASE				
2					
3	**GAS PLANT IN SERVICE CONTINUED**				
4					
5	DISTRIBUTION PLANT CONTINUED				
6	383-REGULATORS	CUST383	0	0	0
7	383-REGULATORS - ACQ ADJ	CUST383	0	0	0
8	384-REGULATOR INSTALLATIONS	CUST384	0	0	0
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	0	0	0
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	367,516	91,879	275,637
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	(27,294)	(6,824)	(20,471)
12	387-OTHER EQUIPMENT	DISTMAIN	4,328	7,899	130,056
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(591)	(1,078)	(17,757)
14	TOTAL DISTRIBUTION PLANT		940,688	1,176,967	17,932,479
15					
16	GENERAL PLANT				
17	389-LAND & LAND RIGHTS	LABOR	466	886	13,163
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(58)	(111)	(1,643)
19	390-STRUCTURES & IMPROVE	LABOR	6,323	12,022	178,524
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(146)	(277)	(4,109)
21	391-OFFICE FURN & EQUIPMENT	LABOR	2,487	4,730	70,232
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(762)	(1,448)	(21,503)
23	392-TRANSPORTATION EQUIP	LABOR	8,494	16,151	239,835
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(101)	(192)	(2,854)
25	393-STORES EQUIPMENT	LABOR	238	452	6,713
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(21)	(40)	(594)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	2,687	5,109	75,863
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(273)	(519)	(7,705)
29	395-LABORATORY EQUIPMENT	LABOR	931	1,770	26,278
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(93)	(177)	(2,634)
31	396-POWER OPERATED EQUIP	LABOR	1,513	2,877	42,719
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(7)	(12)	(184)
33	397-COMMUNICATION EQUIP	LABOR	1,303	2,478	36,799
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(182)	(346)	(5,133)
35	398-MISCELLANEOUS EQUIP	LABOR	328	624	9,270
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(35)	(67)	(989)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0
38	TOTAL GENERAL PLANT		23,094	43,911	652,047
39					
40	COMMON PLANT	LABOR	0	0	0
41					
42	TOTAL GAS PLANT IN SERVICE		1,031,030	1,343,714	20,603,188
43					
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(112,389)	(162,041)	(2,543,580)
45					

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF RATE BASE						
2							
3	**GAS PLANT IN SERVICE CONTINUED**						
4							
5	DISTRIBUTION PLANT CONTINUED						
6	383-REGULATORS	CUST383	0	0	0	0	0
7	383-REGULATORS - ACQ ADJ	CUST383	0	0	0	0	0
8	384-REGULATOR INSTALLATIONS	CUST384	0	0	0	0	0
9	384-REGULATOR INSTALLATIONS - ACQ ADJ	CUST384	0	0	0	0	0
10	385-INDUSTRIAL MEAS. EQUIP	CUST385	0	91,879	147,006	0	0
11	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	CUST385	0	(6,824)	(10,918)	0	0
12	387-OTHER EQUIPMENT	DISTMAIN	46,878	9,266	38,381	913	478
13	387-OTHER EQUIPMENT - ACQ ADJ	DISTMAIN	(6,400)	(1,265)	(5,240)	(125)	(65)
14	TOTAL DISTRIBUTION PLANT		7,096,880	1,344,521	5,364,379	123,748	68,203
15							
16	GENERAL PLANT						
17	389-LAND & LAND RIGHTS	LABOR	6,667	925	3,995	90	57
18	389-LAND & LAND RIGHTS - ACQ ADJ	LABOR	(832)	(115)	(499)	(11)	(7)
19	390-STRUCTURES & IMPROVE	LABOR	90,423	12,544	54,182	1,226	772
20	390-STRUCTURES & IMPROVE - ACQ ADJ	LABOR	(2,081)	(289)	(1,247)	(28)	(18)
21	391-OFFICE FURN & EQUIPMENT	LABOR	35,573	4,935	21,315	482	304
22	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	LABOR	(10,891)	(1,511)	(6,526)	(148)	(93)
23	392-TRANSPORTATION EQUIP	LABOR	121,477	16,853	72,790	1,646	1,038
24	392-TRANSPORTATION EQUIP - ACQ ADJ	LABOR	(1,446)	(201)	(866)	(20)	(12)
25	393-STORES EQUIPMENT	LABOR	3,400	472	2,037	46	29
26	393-STORES EQUIPMENT - ACQ ADJ	LABOR	(301)	(42)	(180)	(4)	(3)
27	394-TOOLS, SHOP & GARAGE EQUIP	LABOR	38,425	5,331	23,024	521	328
28	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	LABOR	(3,903)	(541)	(2,338)	(53)	(33)
29	395-LABORATORY EQUIPMENT	LABOR	13,310	1,847	7,976	180	114
30	395-LABORATORY EQUIPMENT - ACQ ADJ	LABOR	(1,334)	(185)	(800)	(18)	(11)
31	396-POWER OPERATED EQUIP	LABOR	21,637	3,002	12,965	293	185
32	396-POWER OPERATED EQUIP - ACQ ADJ	LABOR	(93)	(13)	(56)	(1)	(1)
33	397-COMMUNICATION EQUIP	LABOR	18,639	2,586	11,168	253	159
34	397-COMMUNICATION EQUIP - ACQ ADJ	LABOR	(2,600)	(361)	(1,558)	(35)	(22)
35	398-MISCELLANEOUS EQUIP	LABOR	4,695	651	2,814	64	40
36	398-MISCELLANEOUS EQUIP - ACQ ADJ	LABOR	(501)	(69)	(300)	(7)	(4)
37	399-OTHER TANGIBLE PROPERTY	LABOR	0	0	0	0	0
38	TOTAL GENERAL PLANT		330,263	45,818	197,897	4,476	2,821
39							
40	COMMON PLANT	LABOR	0	0	0	0	0
41							
42	TOTAL GAS PLANT IN SERVICE		8,159,970	1,534,126	6,158,307	142,389	78,461
43							
44	TOTAL GAS PLANT IN SERVICE ACQ ADJ		(978,349)	(186,512)	(757,005)	(17,672)	(9,577)
45							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

Line	Description	ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVELOPMENT OF RATE BASE CONT.								
2									
3	**DEPRECIATION RESERVE CONTINUED**								
4									
5	**DEPRECIATION RESERVE**								
6	INTANGIBLE RESERVE								
7	302-FRANCHISES & CONSENTS	PLT302	185,148	150,470	22,346	6,819	5,443	42	27
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(7,030)	(5,714)	(849)	(259)	(207)	(2)	(1)
9	303-MISC. INTANGIBLE PLANT	PLT303	289,837	235,552	34,981	10,675	8,521	66	42
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(7,363)	(5,984)	(889)	(271)	(216)	(2)	(1)
11	TOTAL INTANGIBLE PLANT		460,590	374,325	55,589	16,964	13,541	106	67
12									
13	TRANSMISSION RESERVE								
14	365-LAND & LAND RIGHTS	PLT365	15,259	8,338	3,523	2,030	1,348	13	7
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	(125)	(68)	(29)	(17)	(11)	(0)	(0)
16	366-STRUCTURES & IMPROVEMENTS	PLT366	4,130	2,257	954	549	365	4	2
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(759)	(415)	(175)	(101)	(67)	(1)	(0)
18	367-MAINS	PLT367	3,670,676	2,005,735	847,553	488,249	324,368	3,133	1,639
19	367-MAINS - ACQ ADJ	PLT367	(124,060)	(67,789)	(28,645)	(16,502)	(10,963)	(106)	(55)
20	369-MEASURING & REG STATION EQUIP.	PLT369	318,418	173,990	73,522	42,354	28,138	272	142
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(33,265)	(18,177)	(7,681)	(4,425)	(2,940)	(28)	(15)
22	371-OTHER EQUIPMENT	PLT371	0	0	0	0	0	0	0
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(5,565)	(3,041)	(1,285)	(740)	(492)	(5)	(2)
24	TOTAL TRANSMISSION PLANT		3,844,709	2,100,830	887,736	511,398	339,747	3,281	1,717
25									
26	DISTRIBUTION RESERVE								
27	374.1-LAND	PLT374	31,809	17,381	7,345	4,231	2,811	27	14
28	374.1-LAND - ACQ ADJ	PLT374	(182)	(100)	(42)	(24)	(16)	(0)	(0)
29	375-STRUCTURES & IMPROV	PLT375	7,027	3,840	1,622	935	621	6	3
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(39)	(21)	(9)	(5)	(3)	(0)	(0)
31	376-MAINS	PLT376	37,521,357	20,502,461	8,663,614	4,990,843	3,315,663	32,023	16,753
32	376-MAINS - ACQ ADJ	PLT376	(1,835,978)	(1,003,217)	(423,924)	(244,210)	(162,241)	(1,567)	(820)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	657,026	359,013	151,706	87,393	58,060	561	293
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(28,040)	(15,322)	(6,474)	(3,730)	(2,478)	(24)	(13)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	485,438	265,254	112,087	64,570	42,897	414	217
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(28,168)	(15,391)	(6,504)	(3,747)	(2,489)	(24)	(13)
37	380-SERVICES	PLT380	26,830,743	24,506,549	2,117,957	5,444	199,865	0	928
38	380-SERVICES - ACQ ADJ	PLT380	(937,682)	(856,456)	(74,018)	(190)	(6,985)	0	(32)
39	381-METERS	PLT381	6,164,614	5,585,163	505,765	20,187	53,287	0	212
40	381-METERS - ACQ ADJ	PLT381	(116,507)	(105,556)	(9,559)	(382)	(1,007)	0	(4)
41	382-METER INSTALLATIONS	PLT382	1,826,540	1,654,852	149,855	5,981	15,789	0	63
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(88,125)	(79,841)	(7,230)	(289)	(762)	0	(3)
43									
44									
45									

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

Line	Description	ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE CONT.							
2								
3	**DEPRECIATION RESERVE CONTINUED**							
4								
5	**DEPRECIATION RESERVE**							
6	INTANGIBLE RESERVE							
7	302-FRANCHISES & CONSENTS	PLT302	20,770	1,575	219	6,600	3,132	2,311
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(789)	(60)	(8)	(251)	(119)	(88)
9	303-MISC. INTANGIBLE PLANT	PLT303	32,515	2,466	343	10,332	4,903	3,618
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(826)	(63)	(9)	(262)	(125)	(92)
11	TOTAL INTANGIBLE PLANT		51,670	3,919	545	16,419	7,791	5,750
12								
13	TRANSMISSION RESERVE							
14	365-LAND & LAND RIGHTS	PLT365	3,115	408	62	1,968	669	680
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	(25)	(3)	(1)	(16)	(5)	(6)
16	366-STRUCTURES & IMPROVEMENTS	PLT366	843	110	17	533	181	184
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(155)	(20)	(3)	(98)	(33)	(34)
18	367-MAINS	PLT367	749,357	98,195	14,851	473,399	160,864	163,503
19	367-MAINS - ACQ ADJ	PLT367	(25,327)	(3,319)	(502)	(16,000)	(5,437)	(5,526)
20	369-MEASURING & REG STATION EQUIP.	PLT369	65,004	8,518	1,288	41,066	13,954	14,183
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(6,791)	(890)	(135)	(4,290)	(1,458)	(1,482)
22	371-OTHER EQUIPMENT	PLT371	0	0	0	0	0	0
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(1,136)	(149)	(23)	(718)	(244)	(248)
24	TOTAL TRANSMISSION PLANT		784,886	102,851	15,555	495,843	168,491	171,255
25								
26	DISTRIBUTION RESERVE							
27	374.1-LAND	PLT374	6,494	851	129	4,102	1,394	1,417
28	374.1-LAND - ACQ ADJ	PLT374	(37)	(5)	(1)	(24)	(8)	(8)
29	375-STRUCTURES & IMPROV	PLT375	1,435	188	28	906	308	313
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(8)	(1)	(0)	(5)	(2)	(2)
31	376-MAINS	PLT376	7,659,869	1,003,745	151,801	4,839,042	1,644,344	1,671,319
32	376-MAINS - ACQ ADJ	PLT376	(374,809)	(49,115)	(7,428)	(236,782)	(80,460)	(81,780)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	134,130	17,576	2,658	84,735	28,794	29,266
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(5,724)	(750)	(113)	(3,616)	(1,229)	(1,249)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	99,101	12,986	1,964	62,606	21,274	21,623
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(5,750)	(754)	(114)	(3,633)	(1,234)	(1,255)
37	380-SERVICES	PLT380	2,113,108	4,849	3,712	1,732	198,937	928
38	380-SERVICES - ACQ ADJ	PLT380	(73,849)	(169)	(130)	(61)	(6,952)	(32)
39	381-METERS	PLT381	481,588	24,177	846	19,341	45,339	7,948
40	381-METERS - ACQ ADJ	PLT381	(9,102)	(457)	(16)	(366)	(857)	(150)
41	382-METER INSTALLATIONS	PLT382	142,692	7,163	251	5,731	13,434	2,355
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(6,884)	(346)	(12)	(276)	(648)	(114)
43								
44								
45								

UNS GAS COMPANY
COST OF SERVICE STUDY
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LINE	DESCRIPTION	ALLOC	RESIDENTIAL		COMMERCIAL		
			RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**DEPRECIATION RESERVE CONTINUED**						
4							
5	**DEPRECIATION RESERVE**						
6	INTANGIBLE RESERVE						
7	302-FRANCHISES & CONSENTS	PLT302	142,516	7,954	20,770	591	984
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(5,412)	(302)	(789)	(22)	(37)
9	303-MISC. INTANGIBLE PLANT	PLT303	223,100	12,452	32,515	926	1,540
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(5,668)	(316)	(826)	(24)	(39)
11	TOTAL INTANGIBLE PLANT		354,537	19,787	51,670	1,471	2,447
12							
13	TRANSMISSION RESERVE						
14	365-LAND & LAND RIGHTS	PLT365	7,925	413	3,115	139	269
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	(65)	(3)	(25)	(1)	(2)
16	366-STRUCTURES & IMPROVEMENTS	PLT366	2,145	112	843	38	73
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(394)	(21)	(155)	(7)	(13)
18	367-MAINS	PLT367	1,906,437	99,298	749,357	33,414	64,782
19	367-MAINS - ACQ ADJ	PLT367	(64,433)	(3,356)	(25,327)	(1,129)	(2,189)
20	369-MEASURING & REG STATION EQUIP.	PLT369	165,377	8,614	65,004	2,899	5,620
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(17,277)	(900)	(6,791)	(303)	(587)
22	371-OTHER EQUIPMENT	PLT371	0	0	0	0	0
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(2,890)	(151)	(1,136)	(51)	(98)
24	TOTAL TRANSMISSION PLANT		1,996,825	104,006	784,886	34,998	67,853
25							
26	DISTRIBUTION RESERVE						
27	374.1-LAND	PLT374	16,521	860	6,494	290	561
28	374.1-LAND - ACQ ADJ	PLT374	(95)	(5)	(37)	(2)	(3)
29	375-STRUCTURES & IMPROV	PLT375	3,650	190	1,435	64	124
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(20)	(1)	(8)	(0)	(1)
31	376-MAINS	PLT376	19,487,448	1,015,013	7,659,869	341,551	662,194
32	376-MAINS - ACQ ADJ	PLT376	(953,551)	(49,666)	(374,809)	(16,713)	(32,402)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	341,240	17,774	134,130	5,981	11,596
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(14,563)	(759)	(5,724)	(255)	(495)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	252,122	13,132	99,101	4,419	8,567
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(14,630)	(762)	(5,750)	(256)	(497)
37	380-SERVICES	PLT380	23,193,025	1,313,524	2,113,108	4,849	0
38	380-SERVICES - ACQ ADJ	PLT380	(810,551)	(45,905)	(73,849)	(169)	0
39	381-METERS	PLT381	5,285,805	299,359	481,588	13,539	10,638
40	381-METERS - ACQ ADJ	PLT381	(99,899)	(5,658)	(9,102)	(256)	(201)
41	382-METER INSTALLATIONS	PLT382	1,566,154	88,698	142,692	4,012	3,152
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(75,562)	(4,279)	(6,884)	(194)	(152)
43							
44							
45							

UNS GAS COMPANY
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			INDUSTRIAL	
		SM. VOL.	LG. VOL.	TRANS-PORTATION
	ALLOC	(19)	(20)	(21)
1 DEVELOPMENT OF RATE BASE CONT.				
2				
3 **DEPRECIATION RESERVE CONTINUED**				
4				
5 **DEPRECIATION RESERVE**				
6 INTANGIBLE RESERVE				
7 302-FRANCHISES & CONSENTS	PLT302	219	416	6,184
8 302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(8)	(16)	(235)
9 303-MISC. INTANGIBLE PLANT	PLT303	343	652	9,680
10 303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(9)	(17)	(246)
11 TOTAL INTANGIBLE PLANT		545	1,036	15,383
12				
13 TRANSMISSION RESERVE				
14 365-LAND & LAND RIGHTS	PLT365	62	113	1,855
15 365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	(1)	(1)	(15)
16 366-STRUCTURES & IMPROVEMENTS	PLT366	17	30	502
17 366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(3)	(6)	(92)
18 367-MAINS	PLT367	14,851	27,105	446,294
19 367-MAINS - ACQ ADJ	PLT367	(502)	(916)	(15,084)
20 369-MEASURING & REG STATION EQUIP.	PLT369	1,288	2,351	38,714
21 369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(135)	(246)	(4,045)
22 371-OTHER EQUIPMENT	PLT371	0	0	0
23 371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(23)	(41)	(677)
24 TOTAL TRANSMISSION PLANT		15,555	28,390	467,453
25				
26 DISTRIBUTION RESERVE				
27 374.1-LAND	PLT374	129	235	3,867
28 374.1-LAND - ACQ ADJ	PLT374	(1)	(1)	(22)
29 375-STRUCTURES & IMPROV	PLT375	28	52	854
30 375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(0)	(0)	(5)
31 376-MAINS	PLT376	151,801	277,065	4,561,977
32 376-MAINS - ACQ ADJ	PLT376	(7,428)	(13,557)	(223,225)
33 378-MEAS. & REG. EQUIP-GEN	PLT378	2,658	4,852	79,884
34 378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(113)	(207)	(3,409)
35 379-MEAS. & REG. EQUIP-CITY GATE	PLT379	1,964	3,585	59,021
36 379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(114)	(208)	(3,425)
37 380-SERVICES	PLT380	3,712	1,732	0
38 380-SERVICES - ACQ ADJ	PLT380	(130)	(61)	0
39 381-METERS	PLT381	846	4,835	14,506
40 381-METERS - ACQ ADJ	PLT381	(16)	(91)	(274)
41 382-METER INSTALLATIONS	PLT382	251	1,433	4,298
42 382-METER INSTALLATIONS - ACQ ADJ	PLT382	(12)	(69)	(207)
43				
44				
45				

UNS GAS COMPANY
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			PUBLIC AUTHORITY			
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**DEPRECIATION RESERVE CONTINUED**						
4							
5	**DEPRECIATION RESERVE**						
6	INTANGIBLE RESERVE						
7	302-FRANCHISES & CONSENTS	PLT302	3,132	435	1,877	42	27
8	302-FRANCHISES & CONSENTS - ACQ ADJ	PLT302	(119)	(16)	(71)	(2)	(1)
9	303-MISC. INTANGIBLE PLANT	PLT303	4,903	680	2,938	66	42
10	303-MISC. INTANGIBLE PLANT - ACQ ADJ	PLT303	(125)	(17)	(75)	(2)	(1)
11	TOTAL INTANGIBLE PLANT		7,791	1,081	4,669	106	67
12							
13	TRANSMISSION RESERVE						
14	365-LAND & LAND RIGHTS	PLT365	669	132	548	13	7
15	365-LAND & LAND RIGHTS - ACQ ADJ	PLT365	(5)	(1)	(4)	(0)	(0)
16	366-STRUCTURES & IMPROVEMENTS	PLT366	181	36	148	4	2
17	366-STRUCTURES & IMPROV - ADQ ADJ	PLT366	(33)	(7)	(27)	(1)	(0)
18	367-MAINS	PLT367	160,864	31,797	131,707	3,133	1,639
19	367-MAINS - ACQ ADJ	PLT367	(5,437)	(1,075)	(4,451)	(106)	(55)
20	369-MEASURING & REG STATION EQUIP.	PLT369	13,954	2,758	11,425	272	142
21	369-MEASURING & REG STA EQ - ACQ ADJ	PLT369	(1,458)	(288)	(1,194)	(28)	(15)
22	371-OTHER EQUIPMENT	PLT371	0	0	0	0	0
23	371-OTHER EQUIPMENT - ACQ ADJ	PLT371	(244)	(48)	(200)	(5)	(2)
24	TOTAL TRANSMISSION PLANT		168,491	33,304	137,951	3,281	1,717
25							
26	DISTRIBUTION RESERVE						
27	374.1-LAND	PLT374	1,394	276	1,141	27	14
28	374.1-LAND - ACQ ADJ	PLT374	(8)	(2)	(7)	(0)	(0)
29	375-STRUCTURES & IMPROV	PLT375	308	61	252	6	3
30	375-STRUCTURES & IMPROV - ACQ ADJ	PLT375	(2)	(0)	(1)	(0)	(0)
31	376-MAINS	PLT376	1,644,344	325,023	1,346,296	32,023	16,753
32	376-MAINS - ACQ ADJ	PLT376	(80,460)	(15,904)	(65,876)	(1,567)	(820)
33	378-MEAS. & REG. EQUIP-GEN	PLT378	28,794	5,691	23,575	561	293
34	378-MEAS. & REG. EQUIP-GEN - ACQ ADJ	PLT378	(1,229)	(243)	(1,006)	(24)	(13)
35	379-MEAS. & REG. EQUIP-CITY GATE	PLT379	21,274	4,205	17,418	414	217
36	379-MEAS & REG EQ-CITY GATE - ACQ ADJ	PLT379	(1,234)	(244)	(1,011)	(24)	(13)
37	380-SERVICES	PLT380	198,937	928	0	0	928
38	380-SERVICES - ACQ ADJ	PLT380	(6,952)	(32)	0	0	(32)
39	381-METERS	PLT381	45,339	212	7,737	0	212
40	381-METERS - ACQ ADJ	PLT381	(857)	(4)	(146)	0	(4)
41	382-METER INSTALLATIONS	PLT382	13,434	63	2,292	0	63
42	382-METER INSTALLATIONS - ACQ ADJ	PLT382	(648)	(3)	(111)	0	(3)
43							
44							
45							

UNS GAS COMPANY
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		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVELOPMENT OF RATE BASE CONT.								
2									
3	**DEPRECIATION RESERVE CONTINUED**								
4	DISTRIBUTION RESERVE CONTINUED								
5	383-REGULATORS	PLT383	1,048,907	965,643	83,264	0	0	0	0
6	383-REGULATORS - ACQ ADJ	PLT383	(22,959)	(21,136)	(1,823)	0	0	0	0
7	384-REGULATOR INSTALLATIONS	PLT384	190,999	175,837	15,162	0	0	0	0
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(11,380)	(10,476)	(903)	0	0	0	0
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	665,131	0	213,183	341,093	110,855	0	0
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	(13,537)	0	(4,339)	(6,942)	(2,256)	0	0
11	387-OTHER EQUIPMENT	PLT387	503,177	274,947	116,183	66,929	44,464	429	225
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(22,146)	(12,101)	(5,113)	(2,946)	(1,957)	(19)	(10)
13	TOTAL DISTRIBUTION RESERVE		72,828,026	52,191,322	11,597,804	5,325,143	3,664,118	31,827	17,813
14									
15	GENERAL PLANT RESERVE								
16	389-LAND AND LAND RIGHTS	PLT389	13,475	10,952	1,626	496	396	3	2
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	(1,253)	(1,019)	(151)	(46)	(37)	(0)	(0)
18	390-STRUCTURES & IMPROVE	PLT390	284,256	231,016	34,307	10,469	8,357	65	41
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(23,370)	(18,993)	(2,821)	(861)	(687)	(5)	(3)
20	391-OFFICE FURN & EQUIPMENT	PLT391	1,461,457	1,187,734	176,385	53,825	42,966	335	211
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(392,983)	(319,380)	(47,430)	(14,474)	(11,553)	(90)	(57)
22	392-TRANSPORTATION EQUIP	PLT392	3,410,962	2,772,108	411,673	125,626	100,280	782	493
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(101,555)	(82,534)	(12,257)	(3,740)	(2,986)	(23)	(15)
24	393-STORES EQUIPMENT	PLT393	35,647	28,970	4,302	1,313	1,048	8	5
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(2,606)	(2,118)	(315)	(96)	(77)	(1)	(0)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	720,244	585,347	86,927	26,527	21,175	165	104
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(40,385)	(32,821)	(4,874)	(1,487)	(1,187)	(9)	(6)
28	395-LABORATORY EQUIPMENT	PLT395	330,922	268,942	39,939	12,188	9,729	76	48
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(36,929)	(30,012)	(4,457)	(1,360)	(1,086)	(8)	(5)
30	396-POWER OPERATED EQUIPMENT	PLT396	231,788	188,375	27,975	8,537	6,814	53	33
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(1,490)	(1,211)	(180)	(55)	(44)	(0)	(0)
32	397-COMMUNICATION EQUIP	PLT397	542,215	440,661	65,441	19,970	15,941	124	78
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(46,354)	(37,673)	(5,595)	(1,707)	(1,363)	(11)	(7)
34	398-MISCELLANEOUS EQUIP	PLT398	96,341	78,297	11,628	3,548	2,832	22	14
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(5,811)	(4,722)	(701)	(214)	(171)	(1)	(1)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0	0	0
37	TOTAL GENERAL PLANT RESERVE		6,474,571	5,261,921	781,424	238,458	190,348	1,484	936
38									
39	COMMON PLANT	PLTCOMN	0	0	0	0	0	0	0
40									
41	TOTAL DEPRECIATION RESERVE		83,607,897	59,928,398	13,322,554	6,091,962	4,207,753	36,698	20,532
42									
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(3,935,647)	(2,751,288)	(658,271)	(308,818)	(214,279)	(1,927)	(1,064)
44									
45	NET PLANT IN SERVICE		$203,909,989	$140,084,522	$35,131,228	$16,885,969	$11,644,650	$105,691	$57,929
46									

UNS GAS COMPANY
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			COMMERCIAL		INDUSTRIAL		PUBLIC AUTHORITY	
		ALLOC	SM. VOL. (8)	LG. VOL. (9)	SM. VOL. (10)	LG. VOL. (11)	SM. VOL. (12)	LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE CONT.							
2								
3	**DEPRECIATION RESERVE CONTINUED**							
4	DISTRIBUTION RESERVE CONTINUED							
5	383-REGULATORS	PLT383	83,264	0	0	0	0	0
6	383-REGULATORS - ACQ ADJ	PLT383	(1,823)	0	0	0	0	0
7	384-REGULATOR INSTALLATIONS	PLT384	15,162	0	0	0	0	0
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(903)	0	0	0	0	0
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	0	213,183	170,547	170,547	0	110,855
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	0	(4,339)	(3,471)	(3,471)	0	(2,256)
11	387-OTHER EQUIPMENT	PLT387	102,722	13,461	2,036	64,894	22,051	22,413
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(4,521)	(592)	(90)	(2,856)	(971)	(986)
13	TOTAL DISTRIBUTION RESERVE		10,356,152	1,241,651	322,596	5,002,546	1,883,513	1,780,605
14								
15	GENERAL PLANT RESERVE							
16	389-LAND AND LAND RIGHTS	PLT389	1,512	115	16	480	228	168
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	(141)	(11)	(1)	(45)	(21)	(16)
18	390-STRUCTURES & IMPROVE	PLT390	31,889	2,418	336	10,133	4,809	3,548
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(2,622)	(199)	(28)	(833)	(395)	(292)
20	391-OFFICE FURN & EQUIPMENT	PLT391	163,951	12,434	1,729	52,097	24,722	18,244
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(44,086)	(3,344)	(465)	(14,009)	(6,648)	(4,906)
22	392-TRANSPORTATION EQUIP	PLT392	382,652	29,021	4,035	121,591	57,700	42,579
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(11,393)	(864)	(120)	(3,620)	(1,718)	(1,268)
24	393-STORES EQUIPMENT	PLT393	3,999	303	42	1,271	603	445
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(292)	(22)	(3)	(93)	(44)	(33)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	80,799	6,128	852	25,675	12,184	8,991
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(4,530)	(344)	(48)	(1,440)	(683)	(504)
28	395-LABORATORY EQUIPMENT	PLT395	37,124	2,816	391	11,796	5,598	4,131
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(4,143)	(314)	(44)	(1,316)	(625)	(461)
30	396-POWER OPERATED EQUIPMENT	PLT396	26,003	1,972	274	8,263	3,921	2,893
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(167)	(13)	(2)	(53)	(25)	(19)
32	397-COMMUNICATION EQUIP	PLT397	60,827	4,613	641	19,328	9,172	6,769
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(5,200)	(394)	(55)	(1,652)	(784)	(579)
34	398-MISCELLANEOUS EQUIP	PLT398	10,808	820	114	3,434	1,630	1,203
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(652)	(49)	(7)	(207)	(98)	(73)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0	0
37	TOTAL GENERAL PLANT RESERVE		726,338	55,086	7,659	230,800	109,525	80,823
38								
39	COMMON PLANT	PLTCOMN	0	0	0	0	0	0
40								
41	TOTAL DEPRECIATION RESERVE		11,919,046	1,403,507	346,354	5,745,608	2,169,321	2,038,433
42								
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(591,686)	(66,585)	(12,826)	(295,992)	(110,824)	(103,456)
44								
45	NET PLANT IN SERVICE		$31,524,289	$3,606,939	$684,675	$16,201,293	$5,990,649	$5,654,000
46								

UNS GAS COMPANY
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			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**DEPRECIATION RESERVE CONTINUED**						
4	DISTRIBUTION RESERVE CONTINUED						
5	383-REGULATORS	PLT383	913,886	51,757	83,264	0	0
6	383-REGULATORS - ACQ ADJ	PLT383	(20,003)	(1,133)	(1,823)	0	0
7	384-REGULATOR INSTALLATIONS	PLT384	166,413	9,425	15,162	0	0
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	(9,915)	(562)	(903)	0	0
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	0	0	0	119,383	93,801
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	0	0	0	(2,430)	(1,909)
11	387-OTHER EQUIPMENT	PLT387	261,335	13,612	102,722	4,580	8,880
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(11,502)	(599)	(4,521)	(202)	(391)
13	TOTAL DISTRIBUTION RESERVE		49,477,307	2,714,015	10,356,152	478,190	763,462
14							
15	GENERAL PLANT RESERVE						
16	389-LAND AND LAND RIGHTS	PLT389	10,373	579	1,512	43	72
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	(965)	(54)	(141)	(4)	(7)
18	390-STRUCTURES & IMPROVE	PLT390	218,805	12,212	31,889	908	1,510
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(17,989)	(1,004)	(2,622)	(75)	(124)
20	391-OFFICE FURN & EQUIPMENT	PLT391	1,124,949	62,785	163,951	4,669	7,765
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(302,497)	(16,883)	(44,086)	(1,255)	(2,088)
22	392-TRANSPORTATION EQUIP	PLT392	2,625,572	146,537	382,652	10,897	18,124
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(78,172)	(4,363)	(11,393)	(324)	(540)
24	393-STORES EQUIPMENT	PLT393	27,439	1,531	3,999	114	189
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(2,006)	(112)	(292)	(8)	(14)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	554,405	30,942	80,799	2,301	3,827
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(31,086)	(1,735)	(4,530)	(129)	(215)
28	395-LABORATORY EQUIPMENT	PLT395	254,725	14,217	37,124	1,057	1,758
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(28,426)	(1,586)	(4,143)	(118)	(196)
30	396-POWER OPERATED EQUIPMENT	PLT396	178,418	9,958	26,003	740	1,232
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(1,147)	(64)	(167)	(5)	(8)
32	397-COMMUNICATION EQUIP	PLT397	417,367	23,294	60,827	1,732	2,881
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(35,681)	(1,991)	(5,200)	(148)	(246)
34	398-MISCELLANEOUS EQUIP	PLT398	74,158	4,139	10,808	308	512
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(4,473)	(250)	(652)	(19)	(31)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0
37	TOTAL GENERAL PLANT RESERVE		4,983,770	278,151	726,338	20,684	34,402
38							
39	COMMON PLANT	PLTCOMN	0	0	0	0	0
40							
41	TOTAL DEPRECIATION RESERVE		56,812,438	3,115,959	11,919,046	535,343	868,165
42							
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(2,608,869)	(142,419)	(591,686)	(24,099)	(42,486)
44							
45	NET PLANT IN SERVICE		$132,853,027	$7,231,495	$31,524,289	$1,296,392	$2,310,547
46							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
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		ALLOC	INDUSTRIAL SM. VOL. (19)	INDUSTRIAL LG. VOL. (20)	INDUSTRIAL TRANS-PORTATION (21)
1	DEVELOPMENT OF RATE BASE CONT.				
2					
3	**DEPRECIATION RESERVE CONTINUED**				
4	DISTRIBUTION RESERVE CONTINUED				
5	383-REGULATORS	PLT383	0	0	0
6	383-REGULATORS - ACQ ADJ	PLT383	0	0	0
7	384-REGULATOR INSTALLATIONS	PLT384	0	0	0
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	0	0	0
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	170,547	42,637	127,910
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	(3,471)	(868)	(2,603)
11	387-OTHER EQUIPMENT	PLT387	2,036	3,716	61,178
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(90)	(164)	(2,693)
13	TOTAL DISTRIBUTION RESERVE		322,596	324,914	4,677,633
14					
15	GENERAL PLANT RESERVE				
16	389-LAND AND LAND RIGHTS	PLT389	16	30	450
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	(1)	(3)	(42)
18	390-STRUCTURES & IMPROVE	PLT390	336	639	9,494
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(28)	(53)	(781)
20	391-OFFICE FURN & EQUIPMENT	PLT391	1,729	3,287	48,810
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(465)	(884)	(13,125)
22	392-TRANSPORTATION EQUIP	PLT392	4,035	7,672	113,919
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(120)	(228)	(3,392)
24	393-STORES EQUIPMENT	PLT393	42	80	1,191
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(3)	(6)	(87)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	852	1,620	24,055
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(48)	(91)	(1,349)
28	395-LABORATORY EQUIPMENT	PLT395	391	744	11,052
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(44)	(83)	(1,233)
30	396-POWER OPERATED EQUIPMENT	PLT396	274	521	7,741
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(2)	(3)	(50)
32	397-COMMUNICATION EQUIP	PLT397	641	1,220	18,109
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(55)	(104)	(1,548)
34	398-MISCELLANEOUS EQUIP	PLT398	114	217	3,218
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(7)	(13)	(194)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0
37	TOTAL GENERAL PLANT RESERVE		7,659	14,562	216,238
38					
39	COMMON PLANT	PLTCOMN	0	0	0
40					
41	TOTAL DEPRECIATION RESERVE		346,354	368,902	5,376,706
42					
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(12,826)	(17,936)	(278,056)
44					
45	NET PLANT IN SERVICE		$684,675	$974,812	$15,226,481
46					

UNS GAS COMPANY
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12 MONTHS ENDED JUNE 30, 2008
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			PUBLIC AUTHORITY				
		ALLOC	SM. VOL. (22)	LG. VOL. (23)	TRANS-PORTATION (24)	SPECIAL GAS LIGHT SERVICE (25)	IRRIGATION (26)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**DEPRECIATION RESERVE CONTINUED**						
4	DISTRIBUTION RESERVE CONTINUED						
5	383-REGULATORS	PLT383	0	0	0	0	0
6	383-REGULATORS - ACQ ADJ	PLT383	0	0	0	0	0
7	384-REGULATOR INSTALLATIONS	PLT384	0	0	0	0	0
8	384-REGULATOR INSTALLATIONS - ACQ ADJ	PLT384	0	0	0	0	0
9	385-INDUSTRIAL MEAS. EQUIP	PLT385	0	42,637	68,219	0	0
10	385-INDUSTRIAL MEAS. EQUIP - ACQ ADJ	PLT385	0	(868)	(1,388)	0	0
11	387-OTHER EQUIPMENT	PLT387	22,051	4,359	18,054	429	225
12	387-OTHER EQUIPMENT - ACQ ADJ	PLT387	(971)	(192)	(795)	(19)	(10)
13	TOTAL DISTRIBUTION RESERVE		1,883,513	365,962	1,414,643	31,827	17,813
14							
15	GENERAL PLANT RESERVE						
16	389-LAND AND LAND RIGHTS	PLT389	228	32	137	3	2
17	389-LAND AND LAND RIGHTS - ACQ ADJ	PLT389	(21)	(3)	(13)	(0)	(0)
18	390-STRUCTURES & IMPROVE	PLT390	4,809	667	2,881	65	41
19	390-STRUCTURES & IMPROVE - ACQ ADJ	PLT390	(395)	(55)	(237)	(5)	(3)
20	391-OFFICE FURN & EQUIPMENT	PLT391	24,722	3,430	14,814	335	211
21	391-OFFICE FURN & EQUIPMENT - ACQ ADJ	PLT391	(6,648)	(922)	(3,983)	(90)	(57)
22	392-TRANSPORTATION EQUIP	PLT392	57,700	8,005	34,575	782	493
23	392-TRANSPORTATION EQUIP - ACQ ADJ	PLT392	(1,718)	(238)	(1,029)	(23)	(15)
24	393-STORES EQUIPMENT	PLT393	603	84	361	8	5
25	393-STORES EQUIPMENT - ACQ ADJ	PLT393	(44)	(6)	(26)	(1)	(0)
26	394-TOOLS, SHOP & GARAGE EQUIPMENT	PLT394	12,184	1,690	7,301	165	104
27	394-TOOLS, SHOP & GARAGE EQ - ACQ ADJ	PLT394	(683)	(95)	(409)	(9)	(6)
28	395-LABORATORY EQUIPMENT	PLT395	5,598	777	3,354	76	48
29	395-LABORATORY EQUIPMENT - ACQ ADJ	PLT395	(625)	(87)	(374)	(8)	(5)
30	396-POWER OPERATED EQUIPMENT	PLT396	3,921	544	2,349	53	33
31	396-POWER OPERATED EQUIP - ACQ ADJ	PLT396	(25)	(3)	(15)	(0)	(0)
32	397-COMMUNICATION EQUIP	PLT397	9,172	1,272	5,496	124	78
33	397-COMMUNICATION EQUIP - ACQ ADJ	PLT397	(784)	(109)	(470)	(11)	(7)
34	398-MISCELLANEOUS EQUIP	PLT398	1,630	226	977	22	14
35	398-MISCELLANEOUS EQUIP - ACQ ADJ	PLT398	(98)	(14)	(59)	(1)	(1)
36	399-OTHER TANGIBLE PROPERTY	PLT399	0	0	0	0	0
37	TOTAL GENERAL PLANT RESERVE		109,525	15,194	65,628	1,484	936
38							
39	COMMON PLANT	PLTCOMN	0	0	0	0	0
40							
41	TOTAL DEPRECIATION RESERVE		2,169,321	415,541	1,622,891	36,698	20,532
42							
43	TOTAL DEPRECIATION RESERVE ACQ ADJ		(110,824)	(20,476)	(82,980)	(1,927)	(1,064)
44							
45	NET PLANT IN SERVICE		$5,990,649	$1,118,585	$4,535,416	$105,691	$57,929
46							

UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
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		ALLOC	TOTAL COMPANY (1)	RESIDENTIAL (2)	TOTAL COMMERCIAL (3)	TOTAL INDUSTRIAL (4)	TOTAL PUBLIC AUTH. (5)	SPECIAL GAS LIGHT SERVICE (6)	IRRIGATION (7)
1	DEVELOPMENT OF RATE BASE CONT.								
2									
3	**OTHER RATE BASE ITEMS**								
4									
5	WORKING CAPITAL								
6	CASH WORKING CAPITAL								
7	PLANT	PLANT	$1,568	$1,091	$264	$125	$86	$1	$0
8	COMMODITY	WCGC	0	0	0	0	0	0	0
9	OPERATIONS & MAINTENANCE	WCOTH	0	0	0	0	0	0	0
10	OTHER	WCOTH	0	0	0	0	0	0	0
11	TOTAL CASH WORKING CAPITAL		1,568	1,091	264	125	86	1	0
12	MATERIALS & SUPPLIES	PLANT	2,010,788	1,398,813	338,867	160,699	110,866	996	549
13	PREPAYMENTS	PLANT	352,564	245,263	59,416	28,176	19,439	175	96
14	TOTAL WORKING CAPITAL		2,364,921	1,645,166	398,547	189,000	130,391	1,171	645
15									
16	LESS: CUSTOMER CONTRIBUTIONS								
17	CUST ADVANCES FOR CONSTRUCTION	PLANT	(11,235,876)	(7,816,280)	(1,893,519)	(897,952)	(619,494)	(5,564)	(3,066)
18	CUSTOMER DEPOSITS	PLANT	(2,609,271)	(1,815,149)	(439,726)	(208,528)	(143,863)	(1,292)	(712)
19									
20	OTHER RATE BASE								
21	CWIP	DISTRPLT	0	0	0	0	0	0	0
22	Y2K COSTS & GIC DEF	PAYXAG	0	0	0	0	0	0	0
23	C.A.R.E.S.	THERMS	492,590	257,178	120,940	47,947	42,854	4,282	19,388
24	OTHER - WARM SPIRIT	RESNTPT	(22,372)	(22,372)	0	0	0	0	0
25	TOTAL OTHER		470,218	234,806	120,940	47,947	42,854	4,282	19,388
26									
27	LESS								
28	ACCUMULATED DEFERRED INC. TAXES	PLANT	(10,606,875)	(7,378,713)	(1,787,517)	(847,683)	(584,814)	(5,253)	(2,895)
29									
30									
31	TOTAL RATE BASE		$182,293,105	$124,954,351	$31,529,953	$15,168,753	$10,469,724	$99,034	$71,290
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

		ALLOC	COMMERCIAL SM. VOL. (8)	COMMERCIAL LG. VOL. (9)	INDUSTRIAL SM. VOL. (10)	INDUSTRIAL LG. VOL. (11)	PUBLIC AUTHORITY SM. VOL. (12)	PUBLIC AUTHORITY LG. VOL. (13)
1	DEVELOPMENT OF RATE BASE CONT.							
2								
3	**OTHER RATE BASE ITEMS**							
4								
5	WORKING CAPITAL							
6	CASH WORKING CAPITAL							
7	PLANT	PLANT	$237	$27	$6	$120	$45	$42
8	COMMODITY	WCGC	0	0	0	0	0	0
9	OPERATIONS & MAINTENANCE	WCOTH	0	0	0	0	0	0
10	OTHER	WCOTH	0	0	0	0	0	0
11	TOTAL CASH WORKING CAPITAL		237	27	6	120	45	42
12	MATERIALS & SUPPLIES	PLANT	303,826	35,041	7,211	153,488	57,068	53,798
13	PREPAYMENTS	PLANT	53,272	6,144	1,264	26,912	10,006	9,433
14	TOTAL WORKING CAPITAL		357,334	41,212	8,481	180,520	67,118	63,273
15								
16	LESS: CUSTOMER CONTRIBUTIONS							
17	CUST ADVANCES FOR CONSTRUCTION	PLANT	(1,697,717)	(195,803)	(40,291)	(857,660)	(318,882)	(300,612)
18	CUSTOMER DEPOSITS	PLANT	(394,255)	(45,471)	(9,357)	(199,172)	(74,053)	(69,810)
19								
20	OTHER RATE BASE							
21	CWIP	DISTRPLT	0	0	0	0	0	0
22	Y2K COSTS & GIC DEF	PAYXAG	0	0	0	0	0	0
23	C.A.R.E.S.	THERMS	105,211	15,729	1,989	45,958	18,561	24,293
24	OTHER - WARM SPIRIT	RESNTPT	0	0	0	0	0	0
25	TOTAL OTHER		105,211	15,729	1,989	45,958	18,561	24,293
26								
27	LESS							
28	ACCUMULATED DEFERRED INC. TAXES	PLANT	(1,602,676)	(184,841)	(38,036)	(809,647)	(301,031)	(283,783)
29								
30								
31	TOTAL RATE BASE		$28,292,187	$3,237,766	$607,461	$14,561,293	$5,382,362	$5,087,362
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UNS GAS COMPANY
COST OF SERVICE STUDY
12 MONTHS ENDED JUNE 30, 2008
UNS GAS POSITION-FINAL

			RESIDENTIAL		COMMERCIAL		
		ALLOC	RESIDENTIAL SERVICE (14)	CARES (15)	SM. VOL. (16)	LG. VOL. (17)	TRANS-PORTATION (18)
1	DEVELOPMENT OF RATE BASE CONT.						
2							
3	**OTHER RATE BASE ITEMS**						
4							
5	WORKING CAPITAL						
6	CASH WORKING CAPITAL						
7	PLANT	PLANT	$1,034	$56	$237	$10	$17
8	COMMODITY	WCGC	0	0	0	0	0
9	OPERATIONS & MAINTENANCE	WCOTH	0	0	0	0	0
10	OTHER	WCOTH	0	0	0	0	0
11	TOTAL CASH WORKING CAPITAL		1,034	56	237	10	17
12	MATERIALS & SUPPLIES	PLANT	1,326,447	72,366	303,826	12,810	22,231
13	PREPAYMENTS	PLANT	232,574	12,688	53,272	2,246	3,898
14	TOTAL WORKING CAPITAL		1,560,055	85,111	357,334	15,067	26,146
15							
16	LESS: CUSTOMER CONTRIBUTIONS						
17	CUST ADVANCES FOR CONSTRUCTION	PLANT	(7,411,913)	(404,367)	(1,697,717)	(71,582)	(124,220)
18	CUSTOMER DEPOSITS	PLANT	(1,721,245)	(93,905)	(394,255)	(16,623)	(28,847)
19							
20	OTHER RATE BASE						
21	CWIP	DISTRPLT	0	0	0	0	0
22	Y2K COSTS & GIC DEF	PAYXAG	0	0	0	0	0
23	C.A.R.E.S.	THERMS	244,486	12,692	105,211	4,807	10,922
24	OTHER - WARM SPIRIT	RESNTPT	(21,217)	(1,155)	0	0	0
25	TOTAL OTHER		223,269	11,537	105,211	4,807	10,922
26							
27	LESS						
28	ACCUMULATED DEFERRED INC. TAXES	PLANT	(6,996,983)	(381,730)	(1,602,676)	(67,575)	(117,266)
29							
30							
31	TOTAL RATE BASE		$118,506,210	$6,448,141	$28,292,187	$1,160,485	$2,077,281
32							
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